

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Kalamazoo	County Kalamazoo
Audit Date December 31, 2004	Opinion Date May 5, 2005	Date Accountant Report Submitted to State: June 23, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

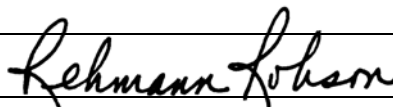
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-------------------------------------|-----|-------------------------------------|----|---|
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/> | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> | Yes | <input checked="" type="checkbox"/> | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



The City of Kalamazoo, Michigan 2004 Comprehensive Annual Financial Report

For the Fiscal Year Ended December 31, 2004

CITY OF KALAMAZOO, MICHIGAN

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

City Commission

Robert B. Jones, Mayor
Hannah J. McKinney, Vice Mayor

Mary Balkema
Don Cooney
Bobby J. Hopewell
David Juarez
Sean McCann

Prepared by: Management Services Department, Accounting Division

City Manager: Pat DiGiovanni, ICMA-CM

Independent Auditors:
Rehmann Robson

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* * * * *



June 17, 2005

To the Honorable Mayor, City Commission, and Citizens of the City of Kalamazoo:

State law requires that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill the City of Kalamazoo's requirement for the fiscal year ended December 31, 2004.

This financial report consists of management's representations concerning the finances of the City of Kalamazoo. Therefore, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management of the City of Kalamazoo has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Kalamazoo's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Kalamazoo's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

Rehmann Robson, Certified Public Accounts, have issued an *unqualified* ("clean") opinion on the City of Kalamazoo's financial statements for the year ended December 31, 2004. The independent auditor's report is located at the front of the financial section of this report.

The City is a recipient of Federal grants, therefore the independent audit of the financial statements of the City of Kalamazoo was part of a broader, federally-mandated "Single Audit" in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately-issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Kalamazoo's MD&A can be found on pages 3-20 of the CAFR, immediately following the report of the independent auditors.

Profile of the Government

The City of Kalamazoo, incorporated in 1884, is located between Chicago and Detroit in the southwest corner of Michigan and encompasses an area of 26 square miles. The current population of the City is approximately 77,000. It is home to Western Michigan University, a state-designated Research I university, as well as the private Kalamazoo College, Kalamazoo Valley Community College and is a satellite site for Davenport University. As a municipality of the State of Michigan, the City of Kalamazoo is empowered to levy a property tax on both real and personal property located within its boundaries.

The City of Kalamazoo has operated under the commission-manager form of government since 1918. Policymaking and legislative authority are vested in an elected commission consisting of seven members, all serving part-time. As required by the City Charter, the entire City Commission is elected on an at-large, non-partisan basis, every two years. The candidates receiving the highest number of votes serve as Mayor and Vice Mayor respectively. The City Manager, City Attorney, City Clerk, City Assessor and Internal Auditors are all appointed by, and report directly to, the City Commission. The City Manager is responsible for administering the policies and ordinances of the City Commission, for appointing the heads of the City's various departments and overseeing day-to-day operations of the City.

City Services

The City of Kalamazoo provides a full range of traditional government services, including police and fire protection; economic and community development activities; recreational and cultural activities and the construction and maintenance of streets and other infrastructure. Unique for a City of its size, the City operates its police and fire services under the public safety concept, in which members of the department are cross-trained to perform both police and fire services. In addition, the City of Kalamazoo operates water and wastewater systems. Both systems are regional in character, serving a large portion of the county outside of the City of Kalamazoo's corporate limits, and both are financially self-supporting. Both Utilities have significant excess capacity compared to current usage.

The City has three tax-increment-financed districts within its boundaries: a Downtown Development Authority for its downtown area, a Brownfield Redevelopment Authority to redevelop blighted properties within its boundaries, and a Local Development Financing Authority for a business and technology research park. A tax-increment financing ("TIF") district captures incremental increases in property tax revenues and reinvests them within that district. In addition to these TIF districts, a portion of the City has been designated as a Renaissance Zone by the State of Michigan, which allows residents and businesses within that zone to enjoy exemption from property taxes and certain state taxes. These districts are discretely presented component units of the City.

Citizens are also served by the City's Metro Transit System, a discretely present component unit of the City of Kalamazoo, which provides mass-transportation services throughout the City, including Western Michigan University, and into outlying areas.

In addition, the City of Kalamazoo has four other legally separate component units, the Economic Development Corporation, Hospital Finance Authority, Kalamazoo Municipal Golf Association and the Kalamazoo Building Authority, entities for which the government is considered to be financially accountable. Additional information on all seven of these legally separate entities can be found in the notes to the financial statements (See Note Disclosures pages 44-46).

Budgeting Control

The annual budget serves as the foundation for the City of Kalamazoo's financial planning and control. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplated expenditures for the following fiscal year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The budget is adopted at the departmental level; Department heads may transfer resources within a department as they see fit. Transfers between departments, however, need special approval from the commission. Legislative action by the City Commission to issue bonds, accept grants and authorize special assessment projects are considered authority to expend funds for those purposes. Unexpended capital project appropriations automatically carry forward to the next fiscal year. All other appropriations lapse at year-end, except for those specifically approved to be carried forward by the City Commission.

The City Commission adopts budgets for the General Fund and all special revenue funds, as required by Michigan statute. The Commission also adopts budgets for capital projects, enterprise funds, and the administrative portion of the pension fund, although not required by the State of Michigan.

The budget has been approved in accordance with GAAP for all governmental funds with the exception of property taxes, as the State of Michigan property tax calendar (which begins July 1) differs from the City's fiscal year (which begins January 1). The City Charter allows property taxpayers to pay their taxes in twelve (12) monthly installments. Property taxes are budgeted in the year levied, even though they are not fully available to finance operations in the current year. Because GAAP requires the recognition of only those property tax collections made during the fiscal year with a sixty-day accrual period, the City prepares dual statements for its General and Solid Waste funds, one in conformity with GAAP, and one on a "Non-GAAP, budgetary basis". Further discussion on this difference and its implication is provided in the Management's Discussion and Analysis and on pages 54-55 of the note disclosures.

Cash Management Policies and Practices

The City's investments, managed by the City Treasurer, are guided by an investment policy adopted by the City Commission in compliance with statutory requirements for municipal investments. Due to their long-term nature, funds for the City's pension fund and Cemetery Perpetual Care fund maintain separate investment portfolios, as allowed by State law, and are managed by an Investment Committee appointed by the City Commission.

Risk Management

The City is predominantly self-insured for general liability, workers' compensation, life and health insurance. The City's policy is to recognize the cost of these claims at the time the liability is incurred in the Insurance and Benefits Fund. The estimated uninsured claim liability (both reported and incurred but not reported) has been recorded as a liability in the Insurance and Benefits Fund. Additional information on risk management can be found in the note disclosures, on page 69.

Pension and Other Post-employment Benefits

The City sponsors a single-employer defined benefit pension plan for its full-time employees. A five-member Board of Trustees is empowered to administer the system. A six-member Investment Committee appointed by the City Commission is responsible for the investment of the system's assets.

As of December 31, 2004, the City of Kalamazoo Employee Retirement System had 1,549 members. Each year, an independent actuary calculates the amount of the annual contribution that the City must make to ensure that the plan will be able to fully meet its obligations to retirees and beneficiaries on a timely basis. Due to the Plan's over-funded status, no contribution was required of the City for fiscal year 2004. The funded status, defined as the percentage of actuarial assets to actuarial liabilities, increased from 146.9% in 2003 to 147.4% as of December 31, 2004, due to changes made to the assumptions and methods and the year's favorable net experience.

The City also provides post-employment health care benefits for certain retirees and their beneficiaries. These benefits are financed on a pay-as-you go basis. Current GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. Additional information on the City's pension arrangements and post-employment benefits can be found in the notes to the financial statements on pages 72-75.

SEC Disclosure under Rule 15c2-12

Securities and Exchange Commission (SEC) Rule 15c2-12 requires that issuers of municipal securities undertake to provide certain annual financial information to various information repositories. In recognition that a CAFR is an appropriate disclosure document for providing information useful to existing and potential investors in the secondary market, and in order to meet our obligation to provide periodic disclosure for the secondary market, as required by Rule 15c2-12, the City of Kalamazoo has elected to include in this CAFR tables providing quantitative data on those activities which require such disclosure. Those tables can be found in the statistical section of the CAFR.

Local Economy

Kalamazoo has long been recognized for its diverse economy, anchored by major employers in the following industries: pharmaceuticals (Pfizer), health care products (Stryker Corp.), health services (Bronson and Borgess regional hospitals), banking (National City), and higher education (Western Michigan University, Kalamazoo College, and Kalamazoo Valley Community College). Paper products manufacturers and automobile component suppliers have reduced their presence in Kalamazoo in recent years, but employers in each of these industries still provide good paying jobs in the community.

Kalamazoo's workforce is as diverse as its economy, ranging from those skilled in manufacturing to research scientists. The region continues to have one of the lowest unemployment rates in the state. At the same time, enrollment in local universities and colleges exceeds 45,000 students, creating a base of potential employees that is highly attractive to business and industry.

Western Michigan University's new \$72.5 million College of Engineering opened its doors in 2003, and the adjoining Business, Technology and Research (BTR) Park saw new investment from life science, advanced engineering, and high technology companies. The Southwest Michigan Innovation Center (SMIC), a \$13 million project located within the BTR Park, is open for business, serving as a business incubator and accelerator for high technology and life science start-up firms. The BTR Park continues to attract established as well as start-up companies bringing the total companies located there to 25. WMU's BTR Park is a Michigan SmartZone, one of 11 designated economic development zones around the state.

The City of Kalamazoo operates one of the most efficient and productive Brownfield Redevelopment programs in the nation. Designated by the US Environmental Protection Agency as a Brownfield Pilot Community, Kalamazoo has redeveloped 12 abandoned industrial sites since 1996, resulting in more than \$69 million in private investment and the creation or retention of 900 jobs. Another seven projects are in various stages of completion, representing private investment exceeding \$12 million. The City and Borgess Hospital won the US EPA's 2002 Phoenix Award for community impact for the \$5.7 million Textile Systems, Inc. Brownfield Redevelopment project on Kalamazoo's northside.

In 2003, the City saw the grand opening of a Felpausch grocery store in Kalamazoo's Northside neighborhood, representing the creation of about 30 jobs and total investment of over \$4 million. The Northside Economic Potential Group completed the North Peak Community Retail Park in the heart of the Northside Neighborhood that provides the residents with a place to shop as well as encourages entrepreneurs from area residents.

Kalamazoo supports business expansion through its tax abatement programs and policies. Businesses have invested over \$90 million in real and personal property approved for tax exemption certificates since the City last amended its PA 198 policy in mid-2000. The City of Kalamazoo utilizes a full range of economic development tools available to "core communities" in Michigan, such as PA 328 personal property tax exemptions, Single Business Tax credits for the redevelopment of brownfield sites, and the designation of 88 acres on five sites in the city as tax-exempt Renaissance Zones.

A long-time cultural and commercial office center for the region, Kalamazoo has made tremendous strides over the past decade to revitalize its central business district, and downtown Kalamazoo has now become a dining and entertainment hub, with much of the new activity occurring in restored historic buildings.

Long-term financial planning

The City of Kalamazoo believes long-term financial planning has been and will continue to be a vital component to ensure the City's fiscal health. The City Commission identified a solid core of financial priorities which focus on: Basic Services and Infrastructure, Economic Growth, Neighborhood and Community Development, Affordable Housing and Expanding the Resource Base. Fiscal year 2005 is expected to be another difficult year as property tax growth, state-shared revenues and the local economy continues to suffer. This situation is not unique to our community. A number of Michigan cities – especially those in urban centers – have been reducing government services in recent years.

The City's tax growth is limited by Proposal A, which caps growth in taxable value. This capping tax base growth has a negative affect on most communities in Michigan, but is a particular hardship for central city communities like Kalamazoo due to the built out nature of our community. Combined with a slow-growing economy, Proposal A hinders the ability of local government to address new service needs in the community without impacting basic municipal services.

Moreover, these fiscal factors create a trend of ever-tightening budgets under which the City must operate and remains the constant focus of the city administration. Efforts continue to stimulate revenue growth through economic development and infrastructure investment activities, and to limit growth in expenditures through improved management of employee healthcare benefits, aggressive labor contract negotiations and consideration of alternative service delivery.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kalamazoo for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2003. This was the ninth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting in to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its 2003 annual budget document. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated service of entire staff of the City of Kalamazoo. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing commission for their unfailing support to maintaining the highest standards of professionalism in the management of the City of Kalamazoo's finances.

Respectfully submitted,



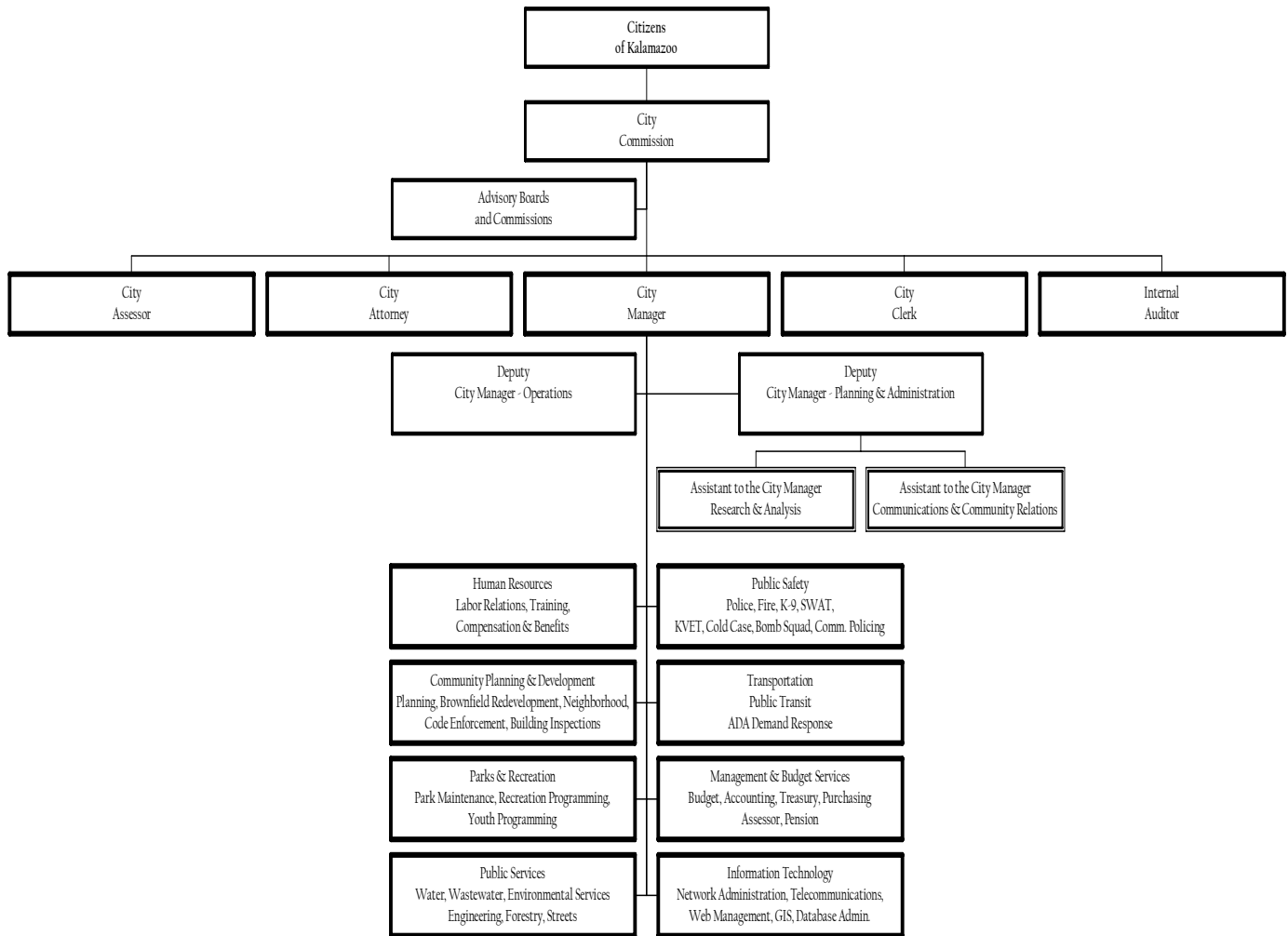
Kenneth P. Collard
Acting City Manager



Mark D. Stuhldreher
Management Services Director, CFO



Organization Chart



CITY OF KALAMAZOO, MICHIGAN

CITY COMMISSION

Robert B. Jones, Mayor
Hannah J. McKinney, Vice Mayor

Mary Balkema
Don Cooney
Bobby J. Hopewell
David Juarez
Sean McCann

CITY ADMINISTRATION

CITY MANAGER: Pat DiGiovanni, ICMA-CM

Kenneth P. Collard, Deputy City Manager/Operations
Jerome Kisscorni, Acting Director of Economic Development Corporation
Dennis Durham, Deputy City Manager/Planning & Administration
Jerri Barnett-Moore, Public Services Managing Director
Doreen Brinson, Human Resources/Labor Relations Director
Daniel Weston, Chief of Public Safety
Patsy Moore, Budget And Evaluation Director
William Schomisch, Transportation Director
Frances Jewell, Parks & Recreation Director
Duane Hettinger, Information Technology Director
Mark Stuhldreher, Management Services Director & Chief Financial Officer

MANAGEMENT SERVICES DEPARTMENT

Angela Bennett, Comptroller
Wade Carlson, City Treasurer
Constance Darling, City Assessor
Nick Lam, Purchasing Director

CITY COMMISSION APPOINTEES

Robert H. Cinabro, City Attorney
City Clerk (Vacant)
Ann Videtich, Internal Auditor
Constance Darling, City Assessor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kalamazoo,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

May 5, 2005

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **City of Kalamazoo, Michigan**, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kalamazoo's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 22.9% and 7.4% of the assets and 30.0% and 7.0% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2005, on our consideration of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-20 and the historical pension supplementary information for the Employees Retirement System listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and do not express opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the City of Kalamazoo, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-vi of this report.

Financial Highlights

Government-Wide Statements:

- The assets of the City exceeded its liabilities ("net assets") at the close of the most recent fiscal year by \$314,708,920. Of this amount, \$35,146,125 ("unrestricted net assets") may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,410,170, or 1.1%. This net increase was a combination of a \$473 thousand increase in governmental activities net assets and a \$2.93 million increase in business-type activity net assets.
- The City's total long-term installment debt increased by \$11,564,001 during the current fiscal year. The increase was mostly attributable to the three new debt issues: Capital Improvement General Obligation bond, Michigan Transportation Fund bond and Water Revenue bond net the scheduled repayment of bonded debt.

Fund Statements:

- As of the close of the current fiscal year, the City's *governmental funds* reported combined ending fund balances of \$28,243,444, an increase of \$6,489,818 from the prior year. Approximately 68% of the combined fund balances, or \$19,262,120, was available for spending at the government's discretion ("*unreserved fund balance*"). However, of that amount, \$4,686,252 was attributable to special revenue and permanent funds. Fund balances in those funds must be used for their intended purposes, leaving \$14,575,868, or 31.3% of revenues and other financing sources, available for use at the government's discretion for general operating purposes.

The \$6.4 million increase in fund balance was primarily attributable to unspent bond proceeds for Local Streets Capital Projects and various other Capital Improvement Projects. A more in-depth discussion of 2004 activity in those funds can be found in the "Financial Analysis of the Government's Funds" section of this analysis (pages 11-15).

- The General Fund *non-GAAP, budgetary* (see explanation under the General Fund financial analysis on page 12) unreserved, undesignated fund balance for the general fund was \$5,922,001, or 12.3% of total general fund revenues and other financing sources. For the purpose of the City's policy, amounts designated as budgeted for use in the next year, \$1,040,548 for 2004, is added to the unreserved, undesignated fund balance, resulting in a fund balance of \$6,981,320, or 13.9%. The General Fund *GAAP* unreserved, undesignated fund balance for the general fund was \$1,012,833 or 2.2% of total general fund revenues and other financing sources.
- Combined proprietary fund net assets increased \$2,553,461 in 2004. This increase was due mainly to a \$2.7 million gain in the Water Fund, due mainly to \$3.8 million being received as capital contributions (revenues for extensions and system improvements from an outside party) and a \$389 thousand operating loss in the wastewater fund.

A more detailed analysis and explanation of governmental financial reporting is included in the remaining sections of this Management Discussion and Analysis.

Overview and Analysis of the Financial Statements

The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to, and analysis of, the City's basic financial statements. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements - designed to provide readers with a long-term, consolidated view of the City's finances, in a manner similar to a private-sector business; government-wide statements are found on pages 21-22 of this report
2. Fund financial statements – designed to provide readers with information on fiscal year activity for the City's individual major funds and, for the General Fund and special revenue funds, to demonstrate budgetary compliance.
3. Notes to the financial statements - additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements; note disclosures can be found on pages 43-75 of this report.

This report also contains other supplementary information, in addition to the basic financial statements and accompanying notes, concerning the City's progress in funding its obligation to provide pension benefits to its employees, which can be found on page 76 of this report.

Government-wide financial statements

The government-wide financial statements are comprised of two financial statements:

- Statement of Net Assets (page 21) - presents information from a long-term perspective on all of the City's assets and liabilities, with the difference between the two reported

as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

- Statement of Activities (page 22) - presents information showing how the government's net assets changed during the most recent fiscal year. Further, unlike the format of private sector financial statements, the statement of activities displays expenses, by program, first and subtracts out revenues derived directly from that program to arrive at a net program cost, which must then be covered by subsidies (i.e., taxes, revenue sharing, interest income, or transfers). This presentation format indicates the amount by which programs are either self-supported or funded by general revenues, such as property taxes.

Both government-wide financial statements have a long-term focus and distinguish functions of the City that are principally supported by taxes and intergovernmental revenues ("*governmental activities*") from other functions that are intended to recover all or a significant portion of their costs through user fees and charges ("*business-type activities*").

The government-wide financial statements include not only the City itself (known as the "*primary government*"), but also legally separate entities for which the City is financially accountable (known as "*component units*"). Component units of the City, as well as information on obtaining separately-issue financial reports for them, can be found on page 44 of the notes to the financial statements.

Net Assets

As notes earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Kalamazoo assets exceeded liabilities by \$314,708,920 at the close of the 2004 fiscal year.

City of Kalamazoo's Net Assets

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 65,116,633	\$ 54,294,863	\$ 32,509,321	\$ 27,852,401	\$ 97,625,954	\$ 82,147,264
Capital assets, net	154,512,475	153,512,751	169,590,440	167,014,802	324,102,915	320,527,553
Total assets	219,629,108	207,807,614	202,099,761	194,867,203	421,728,869	402,674,817
Long-term liabilities outstanding	67,294,980	60,702,285	25,681,380	21,741,241	92,976,360	82,443,526
Other liabilities	11,255,233	6,408,611	2,788,356	2,432,926	14,043,589	8,841,537
Total liabilities	78,550,213	67,110,896	28,469,736	24,174,167	107,019,949	91,285,063
Net assets:						
Invested in capital assets, net						
of related debt	107,099,832	107,634,804	145,485,396	147,019,802	252,585,228	254,654,606
Restricted	11,360,665	13,611,731	15,616,902	12,521,283	26,977,567	26,133,014
Unrestricted	22,618,398	19,450,183	12,527,727	11,151,951	35,146,125	30,602,134
Total net assets	\$ 141,078,895	\$ 140,696,718	\$ 173,630,025	\$ 170,693,036	\$ 314,708,920	\$ 311,389,754

By far, the largest portion of the City's net assets, \$252.6 million or 80.3% reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, systems and infrastructure), less any related debt used to acquire those assets that is still outstanding. Because these amounts are tied up in physical assets, they are *not* available for future spending, unless sold, and are therefore shown as a separate component of net assets. Although the City's investment in its capital assets is reported net of debt used to purchase them, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$26.9 million or 8.6%, represents resources that were subject to external restrictions on how they may be used. Restricted net assets include amounts set aside for endowments, debt service, debt-financed projects, long-term advances, and externally mandated commitments. The remaining balance of *unrestricted net assets*, \$35.1 million or 11.2% as of December 31, 2004, may be used to meet the government's ongoing obligations to citizens and creditors for general operating purposes.

The government's total net assets increased by \$3,410,170, or 1.1%. This net increase was a combination of a \$473 thousand increase in governmental activities net assets and a \$2.93 million increase in business-type activity net assets, attributable largely to the following:

- Governmental activities
 - As noted above, on a modified accrual (or near-term, budgetary focus) basis, governmental fund fund balances increased by \$6.4 million. However, as a result of long-term considerations for the full accrual, long-term perspective of the government-wide statements (detailed on page 26 of this report), \$6 million in adjustments offset the \$6.4 million increase. The most notable accounting adjustment was for capital purchases made in 2004, amounting to \$6.7 million, which are considered expenditures in the short-term focused governmental funds but have no effect, other than depreciation, on the total net assets for the long-term focused government-wide statements.
- Business-type activities
 - \$494,415 planned operating loss for the Wastewater fund
 - \$3.8 million of capital contributions to the water system (revenues received for extensions and improvements to the water distribution system that are paid for by an outside party, such as a homeowner or developer) received in 2004 and a \$348,253 operating loss in the Water fund.

City of Kalamazoo's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue:						
Program revenue:						
Charges for services	\$ 5,319,140	\$ 5,182,156	\$ 27,687,183	\$ 27,709,152	\$ 33,006,323	\$ 32,891,308
Operating grants and contributions	16,811,523	15,874,688	236,315	327,609	17,047,838	16,202,297
Capital grants and contributions	532,334	90,690	5,674,667	5,717,560	6,207,001	5,808,250
General revenue:						
Property taxes	31,803,955	30,937,165	-	-	31,803,955	30,937,165
Grants and contributions not restricted to specific programs	10,499,478	11,436,571	29,593	5,035	10,529,071	11,441,606
Other	576,217	624,327	26,791	30,188	603,008	654,515
Total revenue	<u>65,542,647</u>	<u>64,145,597</u>	<u>33,654,549</u>	<u>33,789,544</u>	<u>99,197,196</u>	<u>97,935,141</u>
Expenses:						
General government	5,354,674	6,275,945	-	-	5,354,674	6,275,945
Public safety	32,320,014	31,128,037	-	-	32,320,014	31,128,037
Economic Development	982,743	1,048,265	-	-	982,743	1,048,265
Community Dev. and Planning	7,676,008	5,587,120	-	-	7,676,008	5,587,120
Parks	1,039,470	844,727	-	-	1,039,470	844,727
Recreation	1,670,349	1,904,491	-	-	1,670,349	1,904,491
Public works	6,240,100	6,720,951	-	-	6,240,100	6,720,951
Streets	6,883,911	6,543,652	-	-	6,883,911	6,543,652
Interest on long-term debt	2,582,855	2,489,721	-	-	2,582,855	2,489,721
Wastewater	-	-	19,904,896	20,109,707	19,904,896	20,109,707
Water	-	-	10,936,547	10,982,741	10,936,547	10,982,741
Other	-	-	195,459	192,711	195,459	192,711
Total expenses	<u>64,750,124</u>	<u>62,542,909</u>	<u>31,036,902</u>	<u>31,285,159</u>	<u>95,787,026</u>	<u>93,828,068</u>
Increase in net assets before transfers	792,523	1,602,688	2,617,647	2,504,385	3,410,170	4,107,073
Transfers	(319,342)	(32,000)	319,342	32,000	-	-
Special item - loss on sale of capital assets/inventory	-	-	-	(4,218,681)	-	(4,218,681)
Change in net assets	473,181	1,570,688	2,936,989	(1,682,296)	3,410,170	(111,608)
Net assets - beginning, as restated	<u>140,605,714</u>	<u>139,126,030</u>	<u>170,693,036</u>	<u>172,375,332</u>	<u>311,298,750</u>	<u>311,501,362</u>
Net assets - end of year	<u>\$ 141,078,895</u>	<u>\$ 140,696,718</u>	<u>\$ 173,630,025</u>	<u>\$ 170,693,036</u>	<u>\$ 314,708,920</u>	<u>\$ 311,389,754</u>

Capital Assets

The City's investment in capital assets, as of December 31, 2004, totaled \$324.1 million (net of accumulated depreciation). This investment in capital assets includes land; land improvements; buildings; water, wastewater, and storm sewer systems; vehicles and equipment; park facilities; roads; highways; and bridges. Net capital assets for governmental activities increased \$999 thousand, or less than 1%, while net business-type activity net assets increased \$2.5 million, or 1.6%, for business-type activities.

Major capital asset events during the current fiscal year included the following:

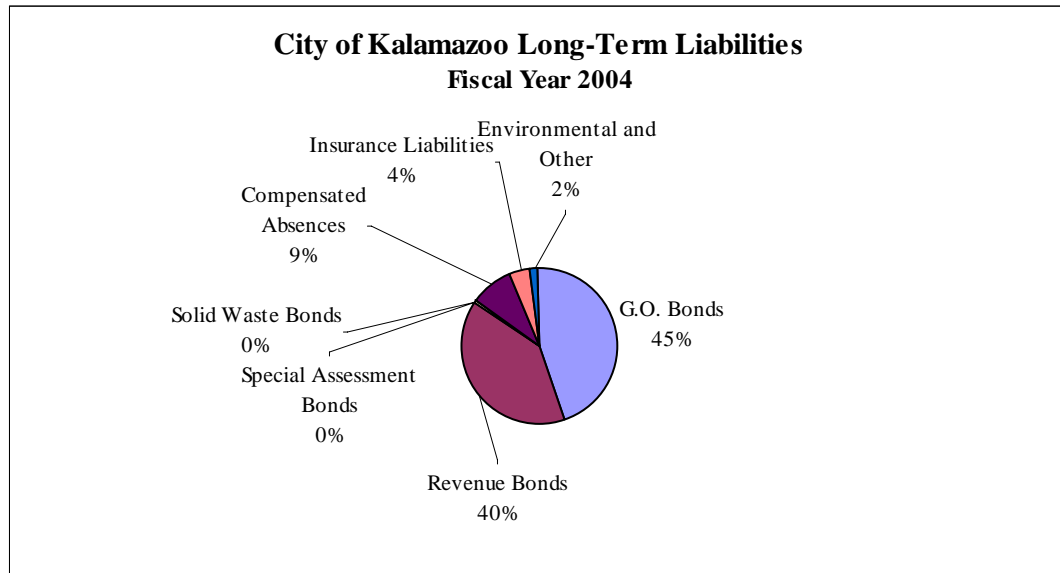
- construction of a \$682 thousand vehicle maintenance facility
- a \$1.25 million upgrade and additions to the new public safety dispatch system
- purchase of two Pierce fire trucks totaling \$413 thousand
- completion of the \$300 thousand Park Maintenance Building
- the construction, reconstruction, or widening of streets and sidewalks in the amount of \$2.3 million.

Additional information on the City's capital assets, including detailed changes from 2003, can be found in Note III C on pages 59-61 of this report.

Long-term Liabilities

In total, the City's long-term liabilities increased \$10,532,834, or 12.8% to \$92,976,360.

The major categories of long-term liabilities are depicted in the following graph.



At the end of the current fiscal year, the City had total *bonded* debt outstanding of \$78,945,085, an increase from 2003 of \$11,564,001. Of this amount, \$41,415,085 was comprised of debt backed by the full faith and credit of the government (“general obligation debt”). The remainder of the City’s bonded debt represented \$36,810,000 in bonds secured solely by specified revenue sources (“revenue bonds”), \$425,000 in bonds supported by a special assessment levy, and \$295,000 in bonds supported by the City’s special solid waste millage levy.

Michigan statutes limit the amount of *general obligation* debt a governmental entity may issue to 10% of its total state equalized valuation. The current debt limitation for the City was \$135,554,085, which was significantly in excess of the City’s \$41.1 million in outstanding general obligation debt.

During the 2004 fiscal year, \$8,415,000 of new general obligation bonds were issued for capital improvement projects, including but not limited to, additional upgrades to the Public Safety emergency system dispatch system and local street construction. In addition, \$9,330,000 of new revenue bonds were issued for Michigan Transportation refunding and water system refunding. The remainder of the \$6.1 million net decrease in total outstanding bonds was the result of scheduled debt repayment.

Also contributing to the overall change in City long-term liabilities was a \$1,084,839 decrease in insurance liabilities, the result of a decrease in long-term workers compensation claims, and a \$731,697 increase in compensated absences.

Additional information on the City’s long-term debt, including comparisons by category to 2004, can be found in note disclosures on pages 62-68.

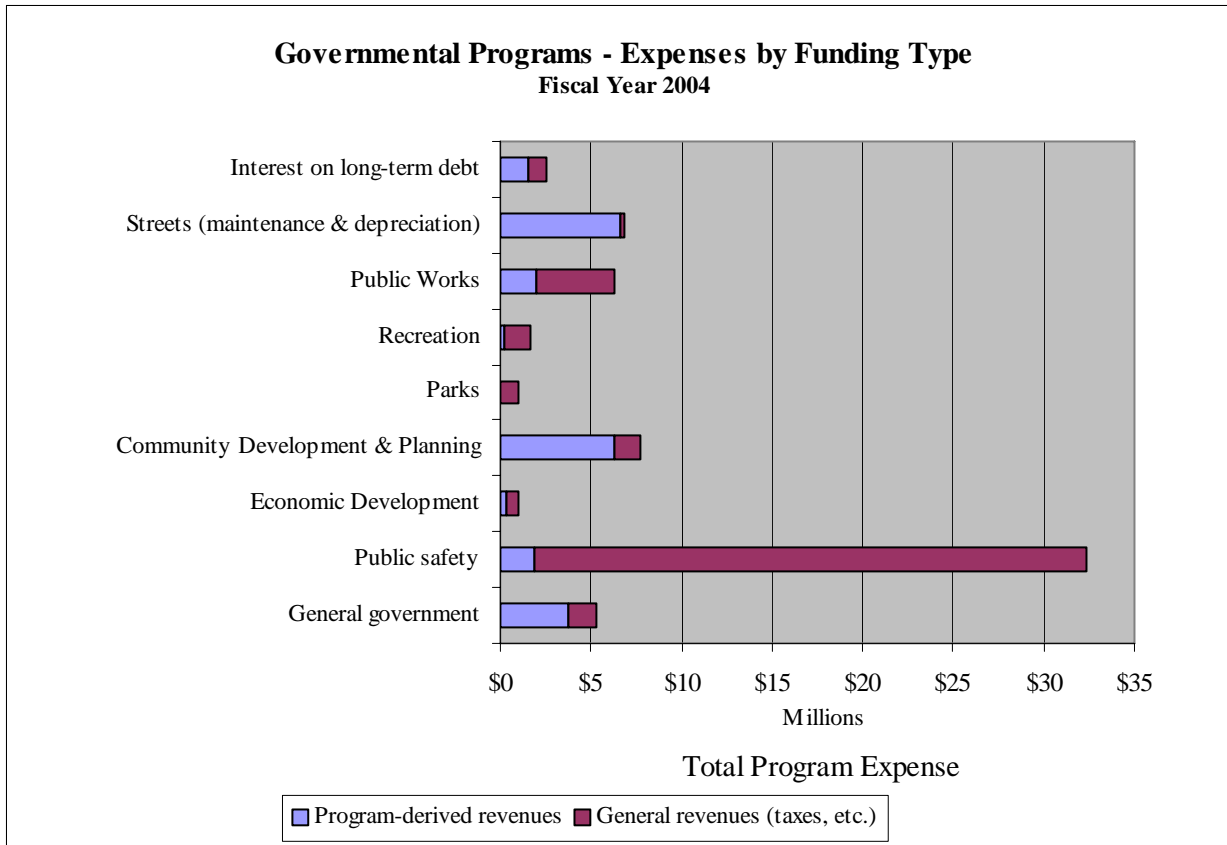
Revenues and Expenses

Governmental activities

The governmental activities of the City include general government (administrative and support services), public safety, economic development, community development and planning, parks, recreation, public works, streets, and interest on long-term debt, which is not allocated to the various programs.

While some revenue for governmental activities is derived from charges specific to programs, the majority of programs are generally subsidized by tax revenues and/or by intergovernmental aid. In total, for fiscal year 2004, 65% of governmental program expenses were funded by a combination of property taxes, revenue sharing from the State of Michigan, interest earnings, and reserves.

The following chart depicts the total expenses for each governmental program for the City of Kalamazoo and the degree to which they are self-supporting and/or subsidized.

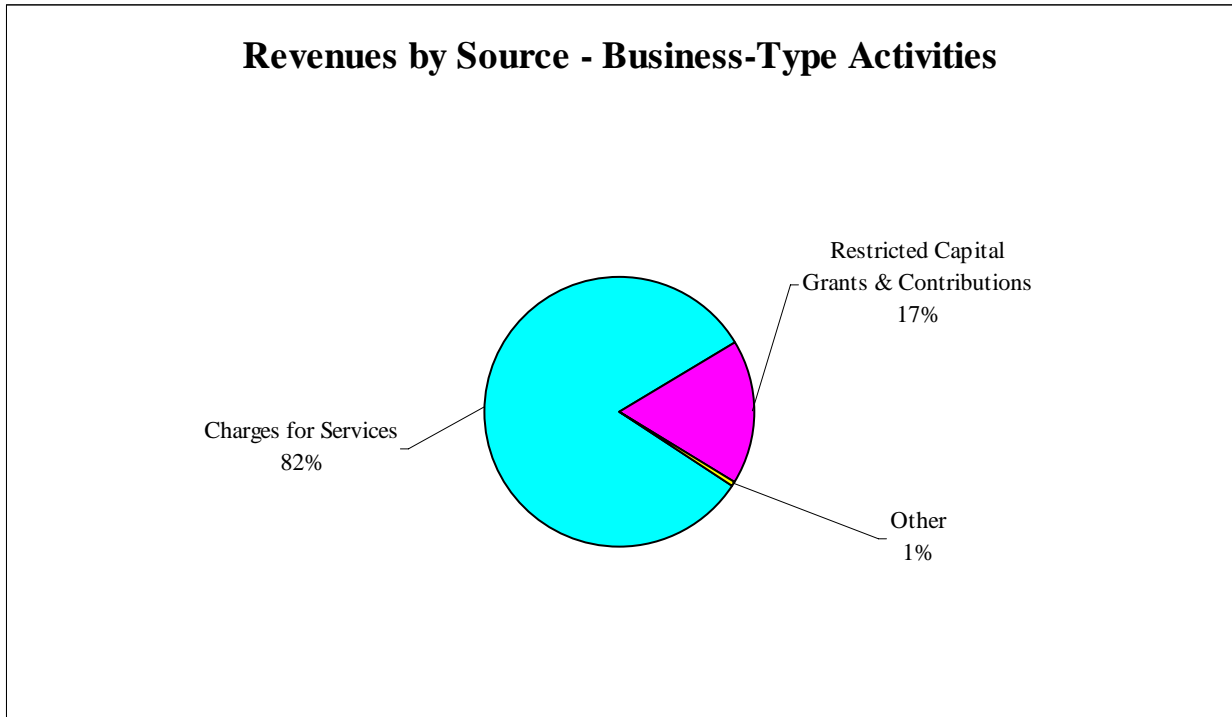


Major changes in governmental activity revenues from 2003 are as follows:

- In 2004, property taxes increased by \$827,644, or 2.7%, on a non-GAAP, budgetary basis (defined below) from 2003.
- Revenue sharing payments from the State of Michigan declined \$967,765, due to (1) a decline in the state's sales tax receipts, upon which a portion of the revenue sharing payments are based and (2) a cut in the amount appropriated by the State to local jurisdictions due to State budget constraints. The cuts in state revenue sharing were anticipated in the 2004 budget, and additional adjustments downward were adjusted for accordingly through expenditure-reducing budget amendments.

Business-type activities

In contrast to governmental activities, business-type activities are funded through user fees and charges. In 2004, 82% of business-type activity revenues were derived from charges for services, 17% were funded through capital grants and contributions, with the remaining 1% attributable to other revenue sources, as depicted in the following chart:



Business-type activities of the City include wastewater, water, an intermodal transportation center, and a farmer's market.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain budgetary and accounting control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental and proprietary funds are labeled either major or non-major funds, depending on their relative size and/or importance to the City overall. The City's major funds for fiscal year 2004 are displayed on pages 23-25 and 33-38. Fiduciary funds, because they held on behalf of others, are never considered major funds. Non-major funds are displayed on pages 77-102, and are not considered part of the basic financial statements.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements and its compliance with budget appropriations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Immediately following both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances is a reconciliation (pages 24 and 26) to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twenty-eight (28) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the City's general fund; the major street streets, local streets, solid waste, neighborhood and community development special revenue funds; the capital improvements project and Cork Street landfill cap construction funds; and the Building Authority debt service fund. Data from the other 16 governmental funds, considered to be non-major, are combined into a single, aggregated column. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* on pages 77-91 of this report.

The City adopts an annual appropriated budget for its general, special revenue, and capital projects funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Fiscal year-end results for governmental fund balances in the aggregate and for the General Fund individually are presented in the Financial Highlights section found on page 3. The following is a discussion of the activity contributing to the change in fund balances for the individual governmental funds. Statements for these funds can be found on pages 23-25.

General Fund

The General Fund is the chief operating fund for governmental activities for the City. Most general governmental services are accounted for in the general fund. Because of the City's property tax installment payment option provided for in the City charter, some property tax collections, \$4,927,939 for 2004, are collected after the time period allowed for revenue recognition by Generally Accepted Accounting Principals (GAAP). As a result, the City

reports two fund balances in the fund financial statements, a “GAAP” fund balance (found on page 25) and a “non-GAAP, budgetary basis” fund balance (found on page 28).

The City has a formal unreserved, undesignated fund balance policy target, using the *non-GAAP, budgetary* fund balance, of 15% of total general fund revenues and other financing sources. At the end of the current fiscal year, the non-GAAP, budgetary unreserved, undesignated fund balance for the general fund was \$5,922,000, or 12.3% of total general fund revenues and other financing sources. For the purpose of the City’s policy, amounts designated as budgeted for use in the next year, \$1,040,548 for 2004, is added to the unreserved, undesignated fund balance, resulting in a fund balance of \$6,981,320, or 13.9%.

The GAAP unreserved, undesignated fund balance for the general fund was \$1,012,833 or 2.2% of total general fund revenues and other financing sources. This was a \$977 thousand decrease from 2003 and resulted from a combination of a planned decrease in the non-GAAP, budgetary fund balance; a \$624,088 increase in property tax deferrals, which results in less property tax revenues being recognized; and a \$783 thousand reservation of fund balance for operational uses in 2005.

The fund experienced a \$1,449,476 *non-GAAP, budgetary* fund balance decrease during 2004. The decrease was, however, \$787,314 less than the fund balance decrease budgeted for 2004. While revenues and other financing sources came in \$459,060 less than the amended budget (mainly due to less-than-anticipated state revenue sharing receipts and interest earnings), the decreased revenues were offset by expenditures and other financing uses coming in \$1,246,374 below budget. However, \$354,471 of the positive expenditure and other financing source variance is being carried forward for spending in 2005 (recorded as reservations and designations of fund balance on the balance sheet). The General fund experienced an overall positive variance of \$1,050,401 between final amended expenditures and final results.

The General Fund budget was amended from what was originally adopted by the City Commission during the year as follows:

- A mid-year budget increase of \$55,000 to the original budget, mainly as due to reinstatement of mandatory and critical education and training originally eliminated, purchase of optical scan voting system, and a decrease in issuance cost for Tax Anticipation Notes.
- An increase of \$173,515 thousand in operating expenditures due to a local grant contribution for the Poverty Initiative and a grant for a Personal Property Audit program.
- Unspent budget appropriations in the amount of \$1,132,597 from 2003 under the City’s budgetary policies were re-appropriated in 2004.

Other minor budget adjustments were made during the year for things like minor grant awards.

Major Streets Special Revenue Fund

The Major Streets Fund is used to account for construction, maintenance, and repair of the City's major streets. It is set up as a separate fund due to receipt of State of Michigan gas & weight tax distributions, which must be used solely for those purposes. This fund also receives transfers from the City's General Fund and Capital Improvement Projects Fund.

The fund experienced a \$3,226,214 increase in fund balance in 2004. Unreserved, undesignated fund balance decreased by \$349,731 to \$581,267, or 6% of revenues and other financing sources. The fund experienced a \$4.1 million positive amended budget variance; however, it is being carried forward to 2005 to unfinished roadway projects.

Local Streets Special Revenue Fund

The Local Streets Fund is used to account for construction, maintenance, and repair of the City's local streets. Like the Major Streets Fund, it is set up as a separate fund due to receipt of State of Michigan gas & weight tax distributions, which must be used solely for those purposes. This fund also receives operating transfers from the City's Major Streets Fund and Capital Improvement Projects Fund.

The fund experienced a \$1,946,356 increase in fund balance in 2004 due to unfinished roadway projects; however, there was a \$1,841,905 increase in unreserved, undesignated fund balance to \$2,227,027, or 42.7% of revenues and other financing sources. The fund experienced a \$596,577 positive budget variance; however, \$319,792 of that is being carried forward to 2005 to unfinished roadway projects.

Solid Waste Special Revenue Fund

The Solid Waste fund is used to account for funds provided by a special tax millage for the collection and removal of solid waste.

Like the General Fund, the Solid Waste fund balance is reported using two bases: the non-GAAP, budgetary basis and the GAAP basis (see explanation in Financial Highlights on page 4). The fund's *non-GAAP, budgetary* unreserved, undesignated fund balance increased \$112,627 during the course of 2004 to \$492,792. The GAAP basis unreserved, undesignated fund balance remained the same in 2004 at \$0 (the entire fund balance is being carried forward for use in 2005). The increase in the non-GAAP, budgetary fund balance was attributable mainly to inflationary increases in property tax revenues in 2004; expenditure levels increased slightly.

Neighborhood and Community Development Special Revenue Fund

This fund is used to account for a variety of federal award programs, most notably the City's Community Development Block, HOME, and Emergency Shelter Grants.

During 2004, the fund balance decreased \$111,988 to \$210,498, which was mainly due to activity in demolition revolving loans.

Capital Improvement Projects Fund

This fund is used to account for major governmental capital projects. Resources of the fund generally include General Fund transfers, grants, and bond proceeds.

The Capital Improvement Projects fund balance increased \$3,478,691 in 2004 to \$5,610,526. Of that amount, \$1,785,622 was undesignated and unreserved (available for future appropriation). The increase in total fund balance was attributable to unspent project amounts being carried forward for use in 2005.

Cork Street Landfill Cap Construction Fund

This fund is used to account for remedial response activities for an EPA brownfield Superfund landfill site. The landfill has been closed for years, but due to the bankruptcy of the final owners, the City, along with others, was named as a “Potentially-responsible Party” (PRP) and ordered to perform remedial action on the site, including the construction of a landfill cap. Resources for this fund are comprised of payments made by the City and the other PRP’s, lawsuit settlements, and grants.

During 2004, the fund balance for the Cork Street Landfill Cap Construction fund decreased \$302,291 from 2003 to \$1,286,063, due mainly to remedial activity that took place during the year.

Building Authority Debt Service Fund

This debt service fund is used to account for the debt service activity of the Kalamazoo Building Authority, a blended component unit. Resources consist of the collection of lease payments by the Downtown Development Authority, as well as transfers from other funds for Building Authority-related debt repayment. While this fund generally operates on a cash-in, cash-out basis, it is designated as a major fund because of the relative size of assets and liabilities as compared to other funds.

During the year, the fund balance decreased \$587 to \$208. The fund balance for both 2003 and 2004 were comprised of accumulated interest earnings, which will be used to offset debt service payments in 2005.

Other (Non-major) Governmental Funds

During the year, the combined fund balance for the City’s non-major governmental funds increased \$305,170 to \$9,286,036. The majority of the \$9.2 million fund balance was attributable to special revenue funds used for economic activities (\$2.9 million), drug forfeitures from the Kalamazoo Valley Enforcement Team (\$1.1 million), and endowments held for recreational and cemetery perpetual care purposes (\$4.7 million). Because resources for these funds are, for the most part, restricted to specific purposes, their fund balances are not available for general government use. Individual statements for these funds can be found on pages 77-95.

Proprietary funds

The City maintains two different types of proprietary funds, *enterprise funds* and *internal service funds*. Enterprise funds are used to report services provided on a service-fee basis and which are funded much like a private-sector business, such as utilities. The City's four (4) enterprise funds include its wastewater, water, intermodal transportation center, and farmer's market.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. For the purpose of financial consolidation, operating profits and losses incurred in the current fiscal year by the internal service funds are allocated to the various funds, including governmental funds, of the City for the government-wide statements. Reconciliations between the proprietary fund statements, and the government-wide statements, required because of the differences caused by consolidation, follow the fund statements (pages 34 and 36).

The proprietary fund financial statements display information in separate columns for each fund, whereas all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements (page 33). Detail on non-major enterprise funds, not considered part of the basic financial statements, is found on pages 97-99. Individual fund data for the internal service funds, also not considered part of the basic financial statements, is presented on pages 100-104.

Fiscal year-end results for proprietary funds in the aggregate are presented in the Financial Highlights section found on page 4. The following is a discussion of the activity contributing to the change in net assets for the individual proprietary funds. Statements for these funds can be found on pages 33-38.

Wastewater Fund

Unrestricted net assets (the amount available for future spending) of the City's Wastewater fund amounted to \$5,399,238 as of December 31, 2004. The fund had a decrease in total net assets for the year of \$389,453.

Contributing to the decrease in total net assets was an operating loss of \$494,415. A much larger operating loss was anticipated for 2004; however, operational savings and higher-than-anticipated revenues from the large industrial users helped to reduce the anticipated loss. Also, revenue of \$1.3 million for true-up charges was booked in 2004. The true-up has been a requirement of the Wastewater Utility since 1999. This adjustment computes the difference between projected and actual cost of service for outside city customers. The results of the study completed in 2004 showed that an additional \$1.3 million should have been collected. Actual implementation of the true-up collections was not completed in 2004, but will be completed in 2005.

The City has a financial policy, which targets minimum levels for certain reserves in the Wastewater Fund. The Operating Reserve (working capital) should be at least 90 days of budgeted operation & maintenance expense; the Emergency Capital Reserve should be at

least equal to the prior year's depreciation expense; and the Environmental Clean-Up Reserve should be equal to the estimated present value cost of known, quantifiable and probable clean-up liabilities. As of December 31, 2004, the balances in these reserves were at or above the minimum levels.

Water Fund

Unrestricted net assets (the amount available for future spending) of the City's Water fund amounted to \$6,356,048 as of December 31, 2004. The fund had an increase in total net assets for the year of \$2,777,605 and an increase in unrestricted net assets of \$1,965,882.

The increase in net assets is primarily attributable to \$3.8 million of capital contributions (revenues received for extensions and improvements to the water distribution system that are paid for by an outside party, such as a homeowner or developer) received in 2004. Because that amount was used to purchase capital assets, it increased the amount of net assets reported as *Invested in capital assets, net of related debt*, thereby resulting in a decrease by that amount in *unrestricted net assets*.

The Water Fund incurred an operating loss of \$348,253. The total loss was lower than anticipated for 2004. Although expenses were on target, operating revenues were higher than anticipated, especially for outside city commercial and multi-family customers.

The City has a financial policy, which targets minimum levels for certain reserves in the Water Fund. The Operating Reserve (working capital) should be at least 90 days of budgeted operation & maintenance expense. As of December 31, 2004, the Operating Reserves were at or above the minimum levels. The Emergency Capital Reserve is required to be at least equal to the prior year's depreciation expense. As of December 31, 2004, the balance was at the prior year's depreciation expense.

Other Enterprise Funds

During the year, the combined net assets for the City's non-major proprietary funds increased \$165,309 to \$1,212,415. The majority of the net asset balance, \$1,076,426 was attributable to the City's Intermodal Transportation Fund. Of that balance, \$1,079,471 was tied up in capital assets and was therefore unavailable for future spending, leaving an unrestricted net asset balance of \$(3,045). The other non-major proprietary fund, the City Market (farmers' market) Fund, had a \$135,989 net asset balance, the unrestricted (amount not tied up in capital assets) portion being \$37,642. Individual statements for these funds can be found on pages 93-95.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are *not* reflected in the government-wide financial statements or designated as major funds because the resources of those funds are *not* available to support City services. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 39-40.

The City maintains three fiduciary funds: the Kalamazoo Employee's Retirement System, a defined benefit pension program for eligible employees, a private-purpose trust fund for monies held on behalf of others, and a tax collection fund for distribution of taxes collected on behalf of various area governments.

Due to funding and investment policies, the Kalamazoo Employee's Retirement System has maintained a fully-funded and/or over-funded status since 1991. The City has not had to make any contributions to the fund since 1997 and is currently projected to not have to do so until 2014. Additional information on the funding status can be found on page iii of the Transmittal Letter and on page 76 of the financial statements.

Component Units

As noted previously, component units are legally separate entities for which the City is financially accountable. Because of their legally-separate nature, analysis of their operations is usually omitted from the MD&A. However, in the case of the Kalamazoo Metro Transit System, its operations and staffing are politically and operationally important to the City to include an analysis of its fiscal-year operations and results.

During 2004, Metro Transit's fund net assets decreased by \$802,052 to \$12,106,133. *Unrestricted* net assets decreased by \$209,855 to \$2,790,309. Further, the Transit Board places an internal restriction on net assets for asset replacement, which, because it is not externally restricted by GAAP standards, is not, reported on the face of the statements. For 2004, that internal restriction amounted to \$1,145,145, resulting in a "usable" net asset balance of \$1,645,164 by current Transit Board policy, or 17% of revenues.

Economic Factors and Next Year's Budgets and Rates

The City of Kalamazoo is a mid-sized, urban Michigan municipality. Like many other urban communities, the City is "built-out", meaning its land, for the most part, is developed, and that other local units of government, which prohibits any boundary expansion, surround it. While proactive in its economic development policies (see the Transmittal Letter for a more in-depth description), the City faces challenges common of most aging urban communities.

The City is home to the main campuses of Western Michigan University, from which the City derives immense economic and intellectual benefits. However, because of the university's location, as well as being the County seat, 40% of the City's land is considered non-taxable. Furthermore, the voters to the State of Michigan have, over the years, enacted two property tax growth control measures, the "Headlee Amendment" and "Proposal A". These measures have the effect of limiting property tax revenue growth to rate of inflation, which has been unusually low the past several years.

Since 2002, the City and other Michigan local governments have experienced a significant reduction in state revenue sharing. As a result of above-mentioned factors, the City levies the maximum charter millage rate. Reductions in state revenue sharing, a cumulative amount of \$6.7 million since 2000, combined with the property tax limitation measures and the large amount of tax-exempt properties, have presented significant challenges to the City in maintaining service levels.

To address these fiscal challenges, the City has enacted a number of budgeting measures over the past several years, including reductions in staffing and certain support area service levels. In addition to those, the 2005 fiscal year budget decreases operational General Fund spending by 2.9% from fiscal year 2004 amended budget, despite contractual wage increases and the escalating cost of health care, while transferring a significant amount, \$2.8 million or 5.7% of total expenditures, for capital project needs. To take advantage of remarkably low borrowing rates and to recognize the importance of maintaining capital assets for economic development and overall quality of city life, the 2005 budget includes the issuance of \$4.25 million in bonds for general governmental capital and infrastructure projects, as well as \$477 thousand in Water system bonds. Combining the bond projects with other funding sources, the City will undertake another aggressive capital program.

In light of the budget cuts experienced during the past several years and an expected turnaround in the state and national economies, the City felt it prudent to "dip into" its General Fund reserves and make an exception to its long-standing policy of maintaining a fund balance equal to 15% of revenues and other financing sources. For fiscal year 2005, the ending fund balance is budgeted to come in at 11.4% of revenues and other financing sources. However, the City Commission has adopted a formal commitment, contained in its 2005 Budget Resolution, that any additional resources (surplus revenue receipts) that become available will be used to restore the fund balance back to the 15% level before being appropriated for any other purpose. The 2005 budget seeks to once again maintain basic services and infrastructure, economic growth, neighborhood and community development, affordable housing and expansion of the resource base.

The City learned early in its 2005 fiscal year that the Governor's 2005/2006 budget proposal calls for state revenue sharing to local municipalities to remain stable with prior-year levels. While still a significant reduction from levels experienced prior to the current economic downturn, the announcement means that if the Governor's revenue sharing proposal is enacted by the State legislature, no further budget cuts are projected for the 2005 fiscal year.

Property tax millage rates are budgeted to remain the same in fiscal year 2005.

Customer rate increases are scheduled to begin March 4, 2005 for the City's Water fund. The Water rate increase will be 3% and will be used to cover proposed capital improvements and provide bond coverage.

Bond Ratings

The following chart depicts the City's credit rating for the various outstanding debt and the different rating agencies as of December 31, 2004. The ratings remained unchanged from 2003.

	Fitch	S&P
Water and wastewater revenue bonds	AA-	A+
General obligation limited tax bonds	AA	AA-
General obligation unlimited tax bonds	AA	AA-

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Management Services Director, 241 W. South Street, Kalamazoo, Michigan 49007.

CITY OF KALAMAZOO, MICHIGAN

Statement of Net Assets

December 31, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 28,374,287	\$ 4,406,568	\$ 32,780,855	\$ 2,671,548
Investments	3,909,754	-	3,909,754	-
Receivables, net	28,999,906	7,743,255	36,743,161	7,813,812
Internal balances	(1,853,258)	1,853,258	-	-
Prepaid items and other assets	453,674	2,008,969	2,462,643	398,792
Restricted cash	2,855,222	2,630,732	5,485,954	1,670,081
Restricted investments	-	13,866,539	13,866,539	1,145,145
Investments with agents	2,377,048	-	2,377,048	-
Capital assets not being depreciated	29,533,110	6,342,982	35,876,092	2,492,855
Capital assets being depreciated, net	124,979,365	163,247,458	288,226,823	8,878,124
 Total assets	 219,629,108	 202,099,761	 421,728,869	 25,070,357
Liabilities				
Accounts payable and accrued expenses	10,359,423	2,788,356	13,147,779	12,683,221
Unearned revenue	895,810	-	895,810	761,386
Long-term liabilities:				
Due within one year	8,038,940	1,419,547	9,458,487	222,324
Due in more than one year	59,256,040	24,261,833	83,517,873	1,049,460
 Total liabilities	 78,550,213	 28,469,736	 107,019,949	 14,716,391
Net assets				
Invested in capital assets, net of related debt	107,099,832	145,705,440	252,805,272	9,925,357
Restricted net assets:				
Non-expendable restricted net assets	2,571,528	-	2,571,528	-
Expendable restricted net assets:				
Debt service	175,966	-	175,966	-
Other purposes (externally imposed)	8,613,171	15,616,902	24,230,073	-
Unrestricted	22,618,398	12,307,683	34,926,081	428,609
 Total net assets	 \$ 141,078,895	 \$ 173,630,025	 \$ 314,708,920	 \$ 10,353,966

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Activities
For the Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 5,354,674	\$ 2,746,278	\$ 1,040,396	\$ -
Public safety (combined police & fire)	32,320,014	312,154	1,003,971	532,334
Economic development	982,743	4,123	337,677	-
Community development and planning	7,676,008	1,560,806	4,779,516	-
Parks	1,039,470	26,962	2,865	-
Recreation	1,670,349	312,681	(108,342)	-
Public works	6,240,100	299,450	1,634,874	-
Streets (maintenance & depreciation)	6,883,911	56,686	6,535,553	-
Interest on long-term debt	2,582,855	-	1,585,013	-
Total governmental activities	64,750,124	5,319,140	16,811,523	532,334
Business-type activities:				
Wastewater	19,904,896	19,266,485	112,148	89,632
Water	10,936,547	8,284,199	117,035	5,375,521
Other	195,459	136,499	7,132	209,514
Total business-type activities	31,036,902	27,687,183	236,315	5,674,667
Total primary government	\$ 95,787,026	\$ 33,006,323	\$ 17,047,838	\$ 6,207,001
Component units				
Development authorities	\$ 8,255,989	\$ 2,294,808	\$ 1,926,166	\$ 104,269
Public transportation	10,942,490	1,203,911	6,781,443	858,726
Golf courses	1,051,686	1,404,344	1,028	-
Total component units	\$ 20,250,165	\$ 4,903,063	\$ 8,708,637	\$ 962,995

General revenues:

Property taxes

Grants and contributions not restricted
to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Contributions to permanent funds

Transfers - internal activities

Total general revenues, contributions,
and transfers

Change in net assets

Net assets, beginning of year, as restated

Net assets, end of year

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,568,000)	\$ -	\$ (1,568,000)	\$ -
(30,471,555)	-	(30,471,555)	-
(640,943)	-	(640,943)	-
(1,335,686)	-	(1,335,686)	-
(1,009,643)	-	(1,009,643)	-
(1,466,010)	-	(1,466,010)	-
(4,305,776)	-	(4,305,776)	-
(291,672)	-	(291,672)	-
(997,842)	-	(997,842)	-
(42,087,127)	-	(42,087,127)	-
-	(436,631)	(436,631)	-
-	2,840,208	2,840,208	-
-	157,686	157,686	-
-	2,561,263	2,561,263	-
(42,087,127)	2,561,263	(39,525,864)	-
-	-	-	(3,930,746)
-	-	-	(2,098,410)
-	-	-	353,686
-	-	-	(5,675,470)
31,803,955	-	31,803,955	5,498,848
10,499,478	29,593	10,529,071	4,089
513,444	15,085	528,529	-
27,753	11,706	39,459	90,526
35,020	-	35,020	-
(319,342)	319,342	-	-
42,560,308	375,726	42,936,034	5,593,463
473,181	2,936,989	3,410,170	(82,007)
140,605,714	170,693,036	311,298,750	10,435,973
\$ 141,078,895	\$ 173,630,025	\$ 314,708,920	\$ 10,353,966

CITY OF KALAMAZOO, MICHIGAN
Balance Sheet
Governmental Funds
December 31, 2004

	General	Major Streets	Local Streets	Solid Waste
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 10,320,942	\$ 4,982,867	\$ 2,541,430	\$ 227,616
Investments	-	-	-	-
Receivables:				
Taxes	6,309,236	-	-	547,307
Notes	134,200	-	-	-
Special assessments	7,729	-	17,564	-
Accrued interest	46,164	-	8,968	-
Other	1,277,749	939	328	-
Due from other funds	1,095,287	164,852	44,230	25,913
Due from component units	67,613	-	-	-
Due from other governments	120,685	712,844	181,225	-
Advances to other funds	-	-	-	-
Advances to component units	-	1,700,968	-	-
Prepaid items and other assets	20,112	-	1,499	-
Restricted cash	-	-	-	-
Investments with agents	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 19,399,717	\$ 7,562,470	\$ 2,795,244	\$ 800,836
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts payable	\$ 2,495,893	\$ 302,180	\$ 61,858	\$ 191,203
Accrued and other liabilities	853,423	10,261	11,325	2,990
Due to other funds	6,591,831	167,448	135,992	113,851
Due to component units	805,911	-	-	-
Due to other governments	2,479	-	-	-
Advances from other funds	-	-	11,585	-
Deposits payable	21,625	-	-	-
Deferred revenue	6,458,087	546	26,166	443,500
Total liabilities	17,229,249	480,435	246,926	751,544
Fund balance				
Reserved for:				
Encumbrances	96,975	1,493,168	31,051	-
Prepaid items	20,112	-	1,499	-
Advances to other funds	-	-	-	-
Advances to component unit	-	1,700,968	-	-
Cemetery perpetual care	-	-	-	-
Recreational activities	-	-	-	-
Unreserved:				
Designated for subsequent years' expenditures	1,040,548	3,306,632	288,741	49,292
Designated, reported in nonmajor special revenue funds	-	-	-	-
Undesignated	1,012,833	581,267	2,227,027	-
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
Total fund balance	2,170,468	7,082,035	2,548,318	49,292
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 19,399,717	\$ 7,562,470	\$ 2,795,244	\$ 800,836

The accompanying notes are an integral part of these financial statements.

Neighborhood and Community Development	Building Authority Debt Service	Cork Street Landfill Cap Construction	Capital Improvements Projects	Other Governmental Funds	Total
\$ 361,449	\$ 12,299	\$ -	\$ 4,187,830	\$ 3,088,497	\$ 25,722,930
-	-	-	-	3,909,754	3,909,754
-	-	-	-	-	6,856,543
4,801,772	-	-	-	636,724	5,572,696
-	-	-	36,728	205,651	267,672
1	-	-	-	18,136	73,269
349,772	138	3,089	76,105	940,492	2,648,612
18,819	-	-	3,968	108,655	1,461,724
1,791	7,571,369	-	100,000	96,685	7,837,458
899,813	-	-	-	341,432	2,255,999
-	-	-	11,585	-	11,585
-	-	-	-	1,709,911	3,410,879
50	-	-	-	-	21,661
-	-	2,726,508	-	-	2,726,508
-	-	-	1,522,920	854,128	2,377,048
\$ 6,433,467	\$ 7,583,806	\$ 2,729,597	\$ 5,939,136	\$ 11,910,065	\$ 65,154,338
\$ 924,468	\$ -	\$ 32,084	\$ 191,257	\$ 269,131	\$ 4,468,074
13,235	-	-	-	256,864	1,148,098
9,131	-	-	34,125	20,516	7,072,894
-	2,229	-	-	94,441	902,581
12,933	-	-	1,500	-	16,912
-	-	-	-	-	11,585
74,031	-	1,410,842	-	3,040	1,509,538
5,189,171	7,581,369	608	101,728	1,980,037	21,781,212
6,222,969	7,583,598	1,443,534	328,610	2,624,029	36,910,894
60,448	-	-	1,064,390	119,639	2,865,671
50	-	-	-	-	21,661
-	-	-	11,585	-	11,585
-	-	-	100,000	1,709,911	3,510,879
-	-	-	-	1,735,160	1,735,160
-	-	-	-	836,368	836,368
-	-	-	2,648,929	-	7,334,142
-	-	-	-	462,057	462,057
150,000	208	1,286,063	1,785,622	-	7,043,020
-	-	-	-	2,035,018	2,035,018
-	-	-	-	175,758	175,758
-	-	-	-	22,948	22,948
-	-	-	-	2,189,177	2,189,177
210,498	208	1,286,063	5,610,526	9,286,036	28,243,444
\$ 6,433,467	\$ 7,583,806	\$ 2,729,597	\$ 5,939,136	\$ 11,910,065	\$ 65,154,338

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2004

Fund balances - total governmental funds	\$ 28,243,444
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	255,572,802
Subtract: accumulated depreciation	(103,092,186)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred property taxes	5,371,439
Add: other deferred revenues	15,531,563

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	4,781,859
Subtract: net assets allocated to business-type activities from governmental-type activity internal service funds	(1,407,078)
Subtract: net assets allocated to component units from governmental-type activity internal service funds	(358,166)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and installment purchase contracts payable	(55,060,085)
Subtract: accrued interest on long-term debt	(613,215)
Subtract: compensated absences	(6,629,700)
Subtract: tax tribunal judgment payable	(238,090)
Subtract: environmental liabilities	(1,277,982)

Costs associated with the issuance of bonds are expended in the individual funds, but are capitalized and amortized over the life of the bonds in the statement of net assets.

Add: deferred charges for bond issuance costs	254,290
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Net assets of governmental activities	<u><u>\$ 141,078,895</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Major Streets	Local Streets	Solid Waste
Revenue				
Property taxes and special assessments	\$ 28,377,850	\$ -	\$ 14,553	\$ 2,603,881
Licenses and permits	1,972,128	-	-	-
Intergovernmental revenue	10,546,924	4,888,714	1,216,600	-
Charges for services	1,276,641	-	-	-
Fines and forfeits	44,324	-	-	-
Interest and dividends	597,063	43,559	8,667	-
Net investment earnings	-	-	-	-
Rental of facilities	-	-	-	-
Other revenue	3,837,752	429,417	4,780	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	46,652,682	5,361,690	1,244,600	2,603,881
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures				
Current expenditures:				
General government	9,290,156	-	-	-
Public safety (combined police & fire)	30,307,822	-	-	-
Economic development	695,973	-	-	-
Community development and planning	2,796,948	-	-	-
Parks and recreation	2,612,259	-	-	-
Public works	1,357,049	-	-	-
Cemeteries	-	-	-	-
Solid waste	-	-	-	2,296,871
Streets	-	1,989,132	1,442,985	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	89,957	-	-	-
Capital outlay	-	2,164,094	1,203,030	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	47,150,164	4,153,226	2,646,015	2,296,871
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	(497,482)	1,208,464	(1,401,415)	307,010
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses)				
Transfers in	779,086	15,946	921,737	14,657
Transfers out	(2,376,461)	(2,341,763)	(630,537)	(299,850)
Proceeds from the sale of capital assets	21,293	-	-	-
Issuance of long-term debt	-	4,343,567	3,056,571	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(1,576,082)	2,017,750	3,347,771	(285,193)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(2,073,564)	3,226,214	1,946,356	21,817
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year, as restated	4,244,032	3,855,821	601,962	27,475
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 2,170,468	\$ 7,082,035	\$ 2,548,318	\$ 49,292
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Neighborhood and Community Development	Building Authority Debt Service	Cork Street Landfill Cap Construction	Capital Improvements Projects	Other Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 21,275	\$ 42,133	\$ 31,059,692
-	-	-	-	-	1,972,128
4,497,230	-	-	705,000	1,097,303	22,951,771
46,913	-	-	-	197,067	1,520,621
-	-	-	-	269,133	313,457
861	540	9,086	46,278	213,123	919,177
-	-	-	-	662,985	662,985
-	2,440,467	-	-	-	2,440,467
27,093	-	13,691	1,521,977	523,419	6,358,129
4,572,097	2,441,007	22,777	2,294,530	3,005,163	68,198,427
-	-	-	-	-	9,290,156
-	-	-	-	1,114,945	31,422,767
-	-	-	-	487,711	1,183,684
4,674,321	-	-	-	263,964	7,735,233
-	-	-	-	212,008	2,824,267
-	-	-	-	-	1,357,049
-	-	-	-	413,008	413,008
-	-	-	-	-	2,296,871
-	-	-	-	-	3,432,117
-	2,281,000	-	-	2,779,999	5,060,999
-	1,615,584	-	-	797,890	2,503,431
-	-	325,068	4,084,171	13,809	7,790,172
4,674,321	3,896,584	325,068	4,084,171	6,083,334	75,309,754
(102,224)	(1,455,577)	(302,291)	(1,789,641)	(3,078,171)	(7,111,327)
9,254	1,454,990	-	2,333,519	3,590,685	9,119,874
(19,018)	-	-	(2,400,049)	(207,344)	(8,275,022)
-	-	-	-	-	21,293
-	-	-	5,334,862	-	12,735,000
(9,764)	1,454,990	-	5,268,332	3,383,341	13,601,145
(111,988)	(587)	(302,291)	3,478,691	305,170	6,489,818
322,486	795	1,588,354	2,131,835	8,980,866	21,753,626
\$ 210,498	\$ 208	\$ 1,286,063	\$ 5,610,526	\$ 9,286,036	\$ 28,243,444

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$	6,489,818
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		6,759,654
Subtract: depreciation expense		(5,334,596)
Subtract: loss on disposal of capital assets		(39,549)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net change in property tax revenues		714,898
Subtract: net change in other deferred revenue		(382,926)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		5,060,999
Add: bond issuance costs capitalized		226,943
Subtract: bond proceeds received		(12,735,000)
Subtract: bond issuance costs amortized		(19,207)

The reduction of the City's long-term liabilities did not provide current financial resources, and was consequently not reported in the funds.

Add: reduction of long-term liability for environmental remediation		558,980
Add: reduction of long-term liability for tax tribunal payments		119,046

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds		552,022
Subtract: current year accrued interest on bonds		(613,215)
Subtract: increase in the accrual of compensated absences		(670,867)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds		86,636
Add: gain/loss on disposal of capital assets in governmental internal service funds		17,410
Add: net operating gain from governmental activities accounted for in internal service funds		846,329
Subtract: net transfers (internal activities) from governmental internal service funds		(1,164,194)

Change in net assets of governmental activities	\$	473,181
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Property taxes and special assessments	\$ 28,902,048	\$ 28,989,432	\$ 29,001,938	\$ 12,506
Licenses and permits	1,884,516	1,884,516	1,972,128	87,612
Intergovernmental	11,790,113	11,876,725	10,546,924	(1,329,801)
Charges for services	991,771	1,217,122	1,276,641	59,519
Fines and forfeitures	30,100	30,100	44,324	14,224
Interest and rent	539,300	539,300	597,063	57,763
Other revenue	3,767,314	3,767,314	3,837,752	70,438
Total revenue	47,905,162	48,304,509	47,276,770	(1,027,739)
Expenditures				
City Commission	63,624	143,508	128,232	15,276
City Administration:				
City Manager	722,809	864,014	834,022	29,992
Budget and evaluation	120,437	126,623	122,726	3,897
Total city administration	843,246	990,637	956,748	33,889
City Attorney	895,092	905,288	907,169	(1,881)
City Clerk:				
Administration	247,141	267,360	223,431	43,929
Election	164,440	185,922	198,621	(12,699)
Records management	263,434	270,114	256,248	13,866
Total city clerk	675,015	723,396	678,300	45,096
Internal Audit	79,374	80,307	80,047	260
Human Resources	860,575	893,803	841,399	52,404
Management Services Department:				
Accounting	970,554	1,000,810	965,678	35,132
Assessing	523,347	669,721	634,641	35,080
Treasury	970,349	974,049	922,748	51,301
Purchasing and risk management	436,776	481,406	467,883	13,523
Total management services department	2,901,026	3,125,986	2,990,950	135,036
Public Safety (combined police and fire):				
Administration	1,216,501	1,161,585	1,161,579	6
Training	943,848	915,832	884,792	31,040
K-Vet drug enforcement	1,577,965	1,651,638	1,650,474	1,164
Operations division	19,497,795	19,464,785	19,466,828	(2,043)
Criminal investigations	3,217,079	3,160,354	3,154,144	6,210
Service division	3,759,432	4,304,403	3,990,005	314,398
Total public safety (combined police and fire)	30,212,620	30,658,597	30,307,822	350,775

Continued...

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual (Concluded)
General Fund
For the Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Expenditures (concluded)				
Public Works:				
Forestry, creeks, and environmental inspections	\$ 738,705	\$ 788,411	\$ 778,512	\$ 9,899
Sidewalks and Pedestrian Mall maintenance	633,156	588,929	578,537	10,392
Total public works	1,371,861	1,377,340	1,357,049	20,291
Economic Development	695,973	695,973	695,973	-
Community Planning and Development:				
Programs	731,065	652,992	530,412	122,580
Planning	340,332	386,594	344,267	42,327
Inspections	2,021,659	2,036,088	1,922,269	113,819
Total community planning and development	3,093,056	3,075,674	2,796,948	278,726
Parks and Recreation:				
Parks maintenance	1,224,347	1,264,798	1,262,057	2,741
Recreation	1,455,382	1,458,729	1,350,202	108,527
Total parks and recreation	2,679,729	2,723,527	2,612,259	111,268
Non-Departmental:				
City Hall maintenance	507,301	611,643	637,442	(25,799)
Street lighting	896,100	896,100	886,303	9,797
Debt Service - interest and fiscal charges	-	-	89,957	(89,957)
Other	1,274,495	1,494,759	1,183,566	311,193
Total non-departmental	2,677,896	3,002,502	2,797,268	205,234
Total expenditures	47,049,087	48,396,538	47,150,164	1,246,374
Excess (deficiency) of revenue over expenditures	856,075	(92,029)	126,606	218,635
Other financing sources (uses)				
Transfers in	392,051	166,700	779,086	612,386
Transfers out	(2,333,286)	(2,376,461)	(2,376,461)	-
Proceeds from the sale of capital assets	65,000	65,000	21,293	(43,707)
Total other financing (uses)	(1,876,235)	(2,144,761)	(1,576,082)	568,679
Net change in fund balance	(1,020,160)	(2,236,790)	(1,449,476)	787,314
Fund balance, beginning of year, as restated	8,547,883	8,547,883	8,547,883	-
Fund balance, end of year (budgetary basis)	<u>\$ 7,527,723</u>	<u>\$ 6,311,093</u>	7,098,407	<u>\$ 787,314</u>
Accounting basis difference			(4,927,939)	
Fund balance, end of year (GAAP basis)			<u>\$ 2,170,468</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Major Streets Fund
For the Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Intergovernmental revenue:				
State trunkline maintenance	\$ 200,000	\$ 200,000	\$ 209,399	\$ 9,399
Gas and weight tax distribution	3,950,326	3,950,326	4,351,527	401,201
Other state revenue	4,037,900	536,120	327,788	(208,332)
Interest	18,000	18,000	43,559	25,559
Other revenue	2,125,820	3,588,907	429,417	(3,159,490)
 Total revenue	 10,332,046	 8,293,353	 5,361,690	 (2,931,663)
Expenditures				
Public services:				
Administration	489,742	483,596	479,352	4,244
Repair	310,402	378,902	379,274	(372)
Maintenance	678,594	713,294	712,323	971
Pavement painting	55,508	51,208	51,125	83
Traffic signals	285,500	307,974	307,800	174
Traffic signs	58,734	59,334	59,258	76
Construction	9,993,700	9,080,941	2,164,094	6,916,847
 Total expenditures	 11,872,180	 11,075,249	 4,153,226	 6,922,023
 Excess (deficiency) of revenue over expenditures	 (1,540,134)	 (2,781,896)	 1,208,464	 3,990,360
Other financing sources (uses)				
Transfers in:				
Insurance and Benefits	-	-	15,946	15,946
Transfers out:				
Local Streets	(1,000,000)	(905,000)	(905,000)	-
Michigan Transportation Fund Debt Service Fund	(1,438,921)	(1,438,921)	(1,436,763)	2,158
Issuance of long-term debt	4,155,800	4,155,800	4,343,567	187,767
 Total other financing sources (uses)	 1,716,879	 1,811,879	 2,017,750	 205,871
 Net change in fund balance	 176,745	 (970,017)	 3,226,214	 4,196,231
 Fund balance, beginning of year	 3,855,821	 3,855,821	 3,855,821	 -
 Fund balance, end of year	 \$ 4,032,566	 \$ 2,885,804	 \$ 7,082,035	 \$ 4,196,231

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Local Streets Fund
For the Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Special assessments	\$ 7,500	\$ 7,500	\$ 14,553	\$ 7,053
Intergovernmental revenue:				
Gas and weight tax distribution	1,214,168	1,214,168	1,216,600	2,432
Interest	16,000	16,000	8,667	(7,333)
Other revenue	-	-	4,780	4,780
Total revenue	1,237,668	1,237,668	1,244,600	6,932
Expenditures				
Public services:				
Administration	527,210	527,800	524,375	3,425
Repair	500,040	527,240	537,208	(9,968)
Maintenance	433,633	337,133	337,035	98
Pavement painting	17,705	9,415	9,408	7
Signs	55,582	37,582	34,959	2,623
Construction	1,500,000	1,716,840	1,203,030	513,810
Total expenditures	3,034,170	3,156,010	2,646,015	509,995
Excess (deficiency) of expenditures over revenue	(1,796,502)	(1,918,342)	(1,401,415)	516,927
Other financing sources (uses)				
Transfers in:				
Major Streets	1,000,000	905,000	905,000	-
Insurance and Benefits	-	-	16,737	16,737
Transfers out:				
Michigan Transportation Fund Debt Service Fund	(636,879)	(636,879)	(590,390)	46,489
Capital Improvement Projects Fund	-	-	(40,147)	(40,147)
Issuance of long-term debt	3,000,000	3,000,000	3,056,571	56,571
Total other financing sources	3,363,121	3,268,121	3,347,771	79,650
Net change in fund balance	1,566,619	1,349,779	1,946,356	596,577
Fund balance, beginning of year	601,962	601,962	601,962	-
Fund balance, end of year	<u>\$ 2,168,581</u>	<u>\$ 1,951,741</u>	<u>\$ 2,548,318</u>	<u>\$ 596,577</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Solid Waste
For the Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Taxes	\$ 2,675,852	\$ 2,675,852	\$ 2,694,691	\$ 18,839
Expenditures				
Solid Waste	2,320,635	2,374,580	2,296,871	77,709
Excess of revenue over expenditures	355,217	301,272	397,820	96,548
Other financing uses				
Transfers in:				
Insurance and Benefits	-	-	14,657	14,657
Transfer out:				
Environmental Debt Service Fund	(299,850)	(299,850)	(299,850)	-
Total other financing sources (uses)	(299,850)	(299,850)	(285,193)	14,657
Net change in fund balance	55,367	1,422	112,627	111,205
Fund balance, beginning of year	380,165	380,165	380,165	-
Fund balance, end of year (budgetary basis)	<u>\$ 435,532</u>	<u>\$ 381,587</u>	492,792	<u>\$ 111,205</u>
Accounting basis difference			(443,500)	
Fund balance, end of year (GAAP basis)			<u>\$ 49,292</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Neighborhood and Community Development Fund
For the Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Intergovernmental revenue:				
Federal grants	\$ 1,018,234	\$ 6,800,936	\$ 4,476,907	\$ (2,324,029)
State grants	-	-	20,323	20,323
Charges for services	-	-	46,913	46,913
Interest	-	-	861	861
Other revenue	-	-	27,093	27,093
Total revenue	1,018,234	6,800,936	4,572,097	(2,228,839)
Expenditures				
Community Development:				
Demolition revolving	415,615	215,633	125,002	90,631
Michigan equity program	-	-	31,916	(31,916)
Housing services	1,018,234	1,018,234	498,077	520,157
Community Development Block Grant	(19,018)	2,393,682	2,287,535	106,147
Emergency shelter	-	33,065	33,065	-
Housing rehabilitation	-	-	49,257	(49,257)
HOME	-	3,336,937	1,649,469	1,687,468
Total expenditures	1,414,831	6,997,551	4,674,321	2,323,230
Excess (deficiency) of revenue over expenditures	(396,597)	(196,615)	(102,224)	94,391
Other financing (uses)				
Transfers in:				
Insurance and Benefits	-	-	9,254	9,254
Transfers out:				
Grants and Donations Fund	(19,018)	(19,018)	(19,018)	-
Total other financing sources (uses)	(19,018)	(19,018)	(9,764)	9,254
Net change in fund balance	(415,615)	(215,633)	(111,988)	103,645
Fund balance, beginning of year	322,486	322,486	322,486	-
Fund balance, end of year	\$ (93,129)	\$ 106,853	\$ 210,498	\$ 103,645

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets
Proprietary Funds
December 31, 2004

	Enterprise Funds					
	Wastewater	Water	Other Enterprise Funds	Total	Internal Service Funds	
Assets						
Current assets:						
Cash and cash equivalents	\$ 836,704	\$ 3,340,888	\$ 42,975	\$ 4,220,567	\$ 2,837,358	
Receivables:						
Customers	4,967,989	2,023,744	34,754	7,026,487	-	
Special assessments	64,338	-	-	64,338	-	
Accrued interest	554	1,724	-	2,278	-	
Other	126,690	-	-	126,690	69,082	
Due from other funds	328,551	847,118	366	1,176,035	7,682,774	
Due from component units	2,727	-	172,888	175,615	8,655	
Due from other governments	4,544	42,401	49,054	95,999	-	
Inventories	552,980	383,884	-	936,864	202,473	
Prepaid items and other assets	14,839	52,526	-	67,365	1,183	
Total current assets	6,899,916	6,692,285	300,037	13,892,238	10,801,525	
Noncurrent assets:						
Restricted cash	385,245	1,420,860	-	1,806,105	953,341	
Restricted investments	11,511,097	2,355,442	-	13,866,539	-	
Notes receivable, long-term	-	13,714	-	13,714	-	
Advances to component units	236,354	821	-	237,175	-	
Deferred bond issuance costs	134,942	843,865	-	978,807	-	
Capital assets	90,033,024	77,031,678	1,177,818	168,242,520	3,379,779	
Total noncurrent assets	102,300,662	81,666,380	1,177,818	185,144,860	4,333,120	
Total assets	109,200,578	88,358,665	1,477,855	199,037,098	15,134,645	
Liabilities						
Current liabilities:						
Accounts payable	748,522	312,631	258,064	1,319,217	1,027,183	
Accrued and other liabilities	274,030	436,397	5,910	716,337	264,830	
Due to other funds	320,695	571,263	973	892,931	2,354,708	
Due to component units	-	-	493	493	134,276	
Deposits payable	2,730	666,129	-	668,859	-	
Unearned revenue	-	-	-	-	17,600	
Current portion of long-term debt	315,176	1,099,868	-	1,415,044	1,385,407	
Total current liabilities	1,661,153	3,086,288	265,440	5,012,881	5,184,004	
Noncurrent liabilities:						
Bonds payable	4,020,000	18,670,000	-	22,690,000	-	
Compensated absences payable	911,242	629,077	-	1,540,319	143,816	
Employee death benefits payable	-	-	-	-	252,583	
Uninsured claim liability	-	-	-	-	2,343,334	
Total noncurrent liabilities	4,931,242	19,299,077	-	24,230,319	2,739,733	
Total liabilities	6,592,395	22,385,365	265,440	29,243,200	7,923,737	
Net assets						
Invested in capital assets, net of related debt	85,828,024	57,351,678	1,177,818	144,357,520	3,379,779	
Restricted for:						
Asset replacement	4,235,358	2,355,442	-	6,590,800	1,750,363	
Capital improvements	7,275,739	-	-	7,275,739	-	
Unrestricted	5,269,062	6,266,180	34,597	11,569,839	2,080,766	
Total net assets	\$ 102,608,183	\$ 65,973,300	\$ 1,212,415	\$ 169,793,898	\$ 7,210,908	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Net Assets on the Statement of Net Assets
for Proprietary Funds to Net Assets
of Business-Type Activities on the Statement of Net Assets
For the Year Ended December 31, 2004

Net assets - total enterprise funds	\$ 169,793,898
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in business-type activities in the Statement of Net Assets

Add: net assets of business-type activities accounted for in business-type activity internal service funds	2,429,049
Add: net assets allocated to business-type activities from governmental-type activity internal service funds	1,407,078

Net assets of business-type activities	<u><u>\$ 173,630,025</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Revenue, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds				
	Wastewater	Water	Other Enterprise Funds	Total	Internal Service Funds
Operating revenue					
Charges for services	\$ 19,190,238	\$ 9,697,272	\$ 143,631	\$ 29,031,141	\$ 24,914,339
Other	100,613	153,336	5,490	259,439	-
Total operating revenue	19,290,851	9,850,608	149,121	29,290,580	24,914,339
Operating expenses					
Operation and maintenance	15,680,701	7,723,608	162,808	23,567,117	7,605,502
Risk management	-	-	-	-	14,950,521
Depreciation	4,104,565	2,475,253	33,039	6,612,857	993,517
Total operating expenses	19,785,266	10,198,861	195,847	30,179,974	23,549,540
Operating income (loss)	(494,415)	(348,253)	(46,726)	(889,394)	1,364,799
Non-operating revenue (expenses)					
Interest income	111,789	75,914	2,155	189,858	99,567
Interest expense	(241,238)	(937,246)	-	(1,178,484)	-
Gain (loss) on sale of capital assets	(28,722)	(2,017)	-	(30,739)	31,133
Total non-operating revenue (expenses)	(158,171)	(863,349)	2,155	(1,019,365)	130,700
Income (loss) before contributions and transfers	(652,586)	(1,211,602)	(44,571)	(1,908,759)	1,495,499
Capital contributions	89,632	3,850,329	209,514	4,149,475	-
Transfers					
Transfers in	173,501	138,878	366	312,745	-
Transfers out	-	-	-	-	(1,157,597)
Total transfers	173,501	138,878	366	312,745	(1,157,597)
Increase (decrease) in net assets	(389,453)	2,777,605	165,309	2,553,461	337,902
Net assets, beginning of year	102,997,636	63,195,695	1,047,106	167,240,437	6,873,006
Net assets, end of year	\$ 102,608,183	\$ 65,973,300	\$ 1,212,415	\$ 169,793,898	\$ 7,210,908

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of the Statement of Revenue, Expenses
and Changes in Fund Net Assets
of Proprietary Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net change in net assets - total proprietary funds	\$ 2,553,461
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Amounts reported for business-type *activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Add: interest revenue from business-type activity internal service funds	12,931
Add: gain on disposal of capital assets in business-type internal service funds	13,723
Add: internal activities (transfers) accounted for in business-type internal service funds	6,597
Subtract: net operating loss from business-type activities accounted for in internal service funds	(63,199)
Add: net operating gain from business-type activities accounted for in governmental internal service funds	413,476
	413,476

Change in net assets of business-type activities	\$ 2,936,989
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The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds				
	Wastewater	Water	Other Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities					
Cash received from customers	\$ 20,525,344	\$ 9,309,545	\$ (11,632)	\$ 29,823,257	\$ -
Cash received from providing interfund services	-	-	-	-	19,002,533
Cash payments to suppliers for goods and services	(10,450,792)	(4,649,383)	37,602	(15,062,573)	(19,380,772)
Cash payments to employees for services	(5,372,758)	(3,764,840)	(12,523)	(9,150,121)	(2,952,345)
Net cash provided (used) by operating activities	4,701,794	895,322	13,447	5,610,563	(3,330,584)
Cash flows from non-capital financing activities					
Transfers in	173,501	138,878	366	312,745	106,901
Transfers out	-	-	-	-	(1,264,498)
Net cash provided (used) by non-capital financing activities	173,501	138,878	366	312,745	(1,157,597)
Cash flows from capital and related financing activities					
Principal payments	(180,000)	(940,000)	-	(1,120,000)	-
Interest payments	(192,458)	(1,074,010)	-	(1,266,468)	-
Proceeds from issuance of long-term debt	-	5,010,000	-	5,010,000	-
Purchases of capital assets	(2,293,883)	(6,970,883)	(209,514)	(9,474,280)	(361,912)
Capital contributions received	89,632	3,850,329	209,514	4,149,475	-
Proceeds from sale of capital assets	445	258	-	703	39,655
Net cash provided (used) by capital and related financing activities	(2,576,264)	(124,306)	-	(2,700,570)	(322,257)
Cash flows from investing activities					
Interest received	111,789	75,914	2,155	189,858	99,567
Purchase of investments	(11,511,097)	(2,355,442)	-	(13,866,539)	-
Sale of investments	9,166,883	1,877,206	-	11,044,089	-
Net cash provided (used) by investing activities	(2,232,425)	(402,322)	2,155	(2,632,592)	99,567
Net increase (decrease) in cash and cash equivalents	66,606	507,572	15,968	590,146	(4,710,871)
Cash and cash equivalents, beginning of year	1,155,343	4,254,176	27,007	5,436,526	8,501,570
Cash and cash equivalents, end of year	\$ 1,221,949	\$ 4,761,748	\$ 42,975	\$ 6,026,672	\$ 3,790,699
Balance sheet classification of cash and cash equivalents					
Cash and cash equivalents	\$ 836,704	\$ 3,340,888	\$ 42,975	\$ 4,220,567	\$ 2,837,358
Restricted assets	385,245	1,420,860	-	1,806,105	953,341
	<u>\$ 1,221,949</u>	<u>\$ 4,761,748</u>	<u>\$ 42,975</u>	<u>\$ 6,026,672</u>	<u>\$ 3,790,699</u>

Non-cash investing capital and financing transactions

All dividends and interest income were immediately reinvested in the cash management funds.

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2004

	Enterprise Funds				Internal Service Funds
	Wastewater	Water	Other Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (494,415)	\$ (348,253)	\$ (46,726)	\$ (889,394)	\$ 1,364,799
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	4,104,565	2,475,253	33,039	6,612,857	993,517
Changes in assets and liabilities:					
Receivables	(274,828)	(75,446)	(2,572)	(352,846)	293,662
Due from other funds	1,505,886	(458,435)	783	1,048,234	(6,276,678)
Due from component units	(2,727)	35,219	(122,338)	(89,846)	71,210
Due from other governments	6,162	(42,401)	(36,626)	(72,865)	-
Inventories	9,701	12,795	-	22,496	(14,469)
Prepaid items and other assets	(4,634)	5,628	-	994	4,636
Accounts payable	101,328	46,199	247,761	395,288	717,855
Accrued and other liabilities	(225,048)	93,626	5,846	(125,576)	8,389
Due to other funds	(39,218)	(1,048,757)	(59,081)	(1,147,056)	444,251
Due to component units	(4)	-	493	489	134,276
Deposits payable	(1,850)	168,747	-	166,897	-
Unearned revenue	-	-	(7,132)	(7,132)	-
Compensated absences payable	16,876	31,147	-	48,023	12,807
Employee death benefits payable	-	-	-	-	(342)
Uninsured claim liability	-	-	-	-	(1,084,497)
Net cash provided (used) by operating activities	\$ 4,701,794	\$ 895,322	\$ 13,447	\$ 5,610,563	\$ (3,330,584)

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

	Employees' Retirement System Pension Trust Fund	General Private Purpose Trust Fund	Tax Collector's Agency Fund
Assets			
Cash and cash equivalents	\$ 11,957,513	\$ 53,968	\$ 1,557,088
Investments:			
Government obligations	81,952,788	-	-
Corporate bonds	19,138,806	-	-
Corporate stocks	48,091,730	-	-
Equity mutual funds	266,941,715	-	-
Real estate mutual funds	22,511,133	-	-
Receivables:			
Taxes	-	-	35,975,419
Accrued interest	1,521,449	-	-
Other	-	-	3,491,170
Investments with agents	-	35,853	-
	<hr/>	<hr/>	<hr/>
Total assets	452,115,134	89,821	\$ 41,023,677
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	1,542,212	748	\$ 2,126,546
Accrued and other liabilities	-	46,715	-
Due to other governments	-	-	38,897,131
	<hr/>	<hr/>	<hr/>
Total liabilities	1,542,212	47,463	\$ 41,023,677
	<hr/>	<hr/>	<hr/>
Net assets			
Held in trust for pension benefits and other purposes	<hr/> \$ 450,572,922	<hr/> \$ 42,358	

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2004

	Employees' Retirement System Pension Trust Fund	General Private Purpose Trust Fund
Additions		
Contributions:		
Private contributions	\$ -	\$ 10,000
Employees	1,517,175	-
Total contributions	<u>1,517,175</u>	<u>10,000</u>
Investment earnings:		
Net appreciation in fair value of investments	48,961,400	-
Interest and dividends	9,131,878	2,460
Less investment advisor fees	(1,568,290)	-
Net investment earnings	<u>56,524,988</u>	<u>2,460</u>
Total additions	<u>58,042,163</u>	<u>12,460</u>
Deductions		
Pension benefits paid directly to participants	13,400,871	-
Refund payments to terminated employees	154,162	-
Trustee fees	207,798	-
Actuarial fees	32,734	-
Administrative expenses paid to the City of Kalamazoo	97,770	-
Investment committee expenses	19,424	-
Parks and recreation	-	798
Other expenses	<u>24,182</u>	<u>-</u>
Total deductions	<u>13,936,941</u>	<u>798</u>
Change in net assets	44,105,222	11,662
Net assets, beginning of year	<u>406,467,700</u>	<u>30,696</u>
Net assets, end of year	<u><u>\$ 450,572,922</u></u>	<u><u>\$ 42,358</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2004

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority
Assets			
Cash and cash equivalents	\$ 180,130	\$ 200,596	\$ 1,604,295
Receivables, net	3,348,721	1,219,108	800,328
Other assets	120,066	-	-
Restricted cash	1,670,081	-	-
Restricted investments	-	-	-
Capital assets, net	425,187	-	-
Total assets	5,744,185	1,419,704	2,404,623
Liabilities			
Account payable and accrued liabilities	6,702,804	1,120,132	699,969
Unearned revenue	119,835	-	293,559
Long-term liabilities:			
Due within one year	207,785	-	-
Due in more than one year	884,940	-	-
Total liabilities	7,915,364	1,120,132	993,528
Net assets			
Invested in capital assets, net of related debt	414,671	-	-
Unrestricted (deficit)	(2,585,850)	299,572	1,411,095
Total net assets	\$ (2,171,179)	\$ 299,572	\$ 1,411,095

The accompanying notes are an integral part of these financial statements.

Local Development Finance Authority	Metro Transit	Kalamazoo Municipal Golf Association	Total
\$ 5,729	\$ 503,863	\$ 176,935	\$ 2,671,548
175,045	2,268,381	2,229	7,813,812
-	229,005	49,721	398,792
-	-	-	1,670,081
-	1,145,145	-	1,145,145
-	9,315,824	1,629,968	11,370,979
180,774	13,462,218	1,858,853	25,070,357
2,053,127	656,811	1,450,378	12,683,221
-	176,860	171,132	761,386
-	6,118	8,421	222,324
-	160,889	3,631	1,049,460
2,053,127	1,000,678	1,633,562	14,716,391
-	9,315,824	194,862	9,925,357
(1,872,353)	3,145,716	30,429	428,609
\$ (1,872,353)	\$ 12,461,540	\$ 225,291	\$ 10,353,966

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2004

	Downtown Development Authority	Economic Development Corporation	Brownfield Redevelopment Authority
Expenses	\$ 5,516,865	\$ 85,081	\$ 1,840,749
Program revenues			
Charges for services	2,280,998	13,810	-
Operating grants, contributions, and restricted interest	255,762	234,062	1,151,662
Capital grants and contributions	104,269	-	-
Total program revenues	2,641,029	247,872	1,151,662
Net (expense) revenue	(2,875,836)	162,791	(689,087)
General revenues:			
Property taxes	3,409,982	-	211,614
Grants and contributions not restricted to specific programs	-	4,089	-
Gain on sale of capital assets	-	-	89,241
Total general revenues	3,409,982	4,089	300,855
Change in net assets	534,146	166,880	(388,232)
Net assets (deficit), beginning of year	(2,705,325)	132,692	1,799,327
Net assets (deficit), end of year	\$ (2,171,179)	\$ 299,572	\$ 1,411,095

The accompanying notes are an integral part of these financial statements.

Local Development Finance Authority	Metro Transit	Kalamazoo Municipal Golf Association	Total
\$ 813,294	\$ 10,942,490	\$ 1,051,686	\$ 20,250,165
-	1,203,911	1,404,344	4,903,063
284,680	6,781,443	1,028	8,708,637
-	858,726	-	962,995
284,680	8,844,080	1,405,372	14,574,695
(528,614)	(2,098,410)	353,686	(5,675,470)
416,612	1,460,640	-	5,498,848
-	-	-	4,089
-	1,285	-	90,526
416,612	1,461,925	-	5,593,463
(112,002)	(636,485)	353,686	(82,007)
(1,760,351)	13,098,025	(128,395)	10,435,973
\$ (1,872,353)	\$ 12,461,540	\$ 225,291	\$ 10,353,966

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kalamazoo, Michigan (the “City”) conform to United States generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The City of Kalamazoo is a municipal corporation governed by an elected, seven-member City Commission. As required by generally accepted accounting principles, these financial statements present the City of Kalamazoo (the primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and so data from these units are combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column on the statement of net assets to emphasize that they are legally separate from the government. Each blended and discretely presented component unit has a December 31 year end.

Blended Component Unit

Kalamazoo Building Authority – The Kalamazoo Building Authority has been blended into the City’s financial statements as debt service and capital project fund types. The Authority is governed by a three-member board consisting of the City Manager, City Attorney and Finance Director and is reported as if it were part of the primary government because its sole purpose is to finance and construct the City’s public buildings.

Discretely Presented Component Units

Except for the Kalamazoo Municipal Golf Association, the governing bodies of all of these component units are appointed by the Mayor of the City of Kalamazoo with approval of the City Commission.

Downtown Development Authority – The Downtown Development Authority was created as a tax-increment financing (TIF) district to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority’s budget is subject to approval by the City Commission.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Economic Development Corporation - The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the City so as to provide needed services and facilities to the residents of the City. In certain situations, members of the Board of Directors may be removed by a majority of the Kalamazoo City Commission.

Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority was established pursuant to Act 381 of the Public Acts of 1996, as amended. The purpose of the Authority is to treat and revitalize environmentally distressed brownfield zones. The Authority is financed by tax increment financing and State grants, and has named the City of Kalamazoo as its fiscal agent. The Authority is governed by the Board of the Economic Development Corporation.

Hospital Finance Authority - The Hospital Finance Authority's purpose is to construct, acquire, reconstruct, remodel, improve, add to, enlarge, repair, own and lease hospital facilities for the use of any nonprofit hospital inside or outside the boundaries of the City of Kalamazoo, Michigan. The Authority's budget is subject to approval by the City Commission. The Authority had no account balances at or for the year ended December 31, 2004.

Local Development Finance Authority - The purpose of the LDFA is to finance improvements, through the use of tax increment financing, within the City's business and technology research park. The LDFA was established as a tax-increment financing (TIF) district in 2002 in accordance with Michigan Public Act 248 of 2000.

Metro Transit System - The Metro Transit System operates the public transportation system in the City of Kalamazoo and portions of the surrounding area. The System's budget is subject to approval by the City Commission.

Kalamazoo Municipal Golf Association - The Kalamazoo Municipal Golf Association operates the City's public golf courses. The Board of Governors consists of nine members elected from the general membership, two members elected from the Governing Board (to add diversity with respect to race and sex) and three voting ex-officio members from the City of Kalamazoo (the City Manager, Deputy City Manager, and Director of Finance). The Association is fiscally dependent on the City in that the City Commission approves the annual budget, greens fees and membership fees, and one of the three City ex-officio members must approve of any proposal to expend money for any purpose.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Complete financial statements of the individual component units, except for the Brownfield Redevelopment Authority, the Hospital Finance Authority, and Local Development Finance Authority, can be obtained from their respective administrative offices:

Downtown Development Authority

141 East Michigan Avenue
Kalamazoo, MI 49007

Economic Development Corporation

241 West South Street
Kalamazoo, MI 49007

Metro Transit System

530 South Rose
Kalamazoo, MI 49007

Kalamazoo Municipal Golf Association

4200 Lovers Lane
Kalamazoo, MI 49007

B. Government-wide and fund financial statements

Government-wide financial statements. The statements of net assets and activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The *Major Streets Fund* accounts for the construction, maintenance and repairs of all major streets. Revenues received include state-shared gas and weight taxes, local contributions, etc. This is a special revenue fund because it is used to control the expenditures of motor fuel taxes, which are earmarked by law and the state constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

The *Local Streets Fund* accounts for the construction, maintenance and repairs of all local streets. Financing is provided by state-shared gas and weight taxes, local contributions, etc. This is a special revenue fund because it is used to control the expenditures of motor fuel taxes, which are earmarked by law and the state constitution for street and highway purposes, and is required by Act 51 of the Public Acts of 1951, as amended.

The *Solid Waste Fund* accounts for funds provided by a special tax millage for the collection and removal of solid waste. This fund was authorized by a vote of the people authorizing a tax levy and is classified as a special revenue fund due to the limited usage of the assets.

The *Neighborhood and Community Development Fund* accounts for a variety of federal awards programs, including Community Development Block Grant, housing development, rental assistance and several other programs.

The *Building Authority Debt Service Fund* accounts for the debt service activity of the Kalamazoo Building Authority, which consists of the collection of lease payments from the Downtown Development Authority and from the general public for facilities improvements and the subsequent debt service expenditures related to the outstanding Building Authority debt issues.

The *Cork Street Landfill Cap Construction Fund* accounts for earmarked revenue set aside for post closure care and monitoring costs associated with the Cork Street Landfill. Revenue sources from prior years included transfers from other funds and contributions from outside parties identified as potentially responsible parties.

The *Capital Improvement Projects Fund* accounts for earmarked revenue set aside for public improvements of a major nature. Revenue sources include General Fund transfers, grants from other units of government, private contributions and bond proceeds.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The City reports the following major enterprise funds:

The *Wastewater Fund* accounts for the operation and maintenance of the sewage disposal system, capital additions and improvements to the system and retirement of revenue bonds. Financing is provided by user charges, Environmental Protection Agency grants for wastewater treatment plant expansion, state grants, and contributions from other municipalities and customers. This fund is classified as an enterprise fund because it is funded primarily through user charges.

The *Water Fund* accounts for the operation and maintenance of the water supply system, capital additions and improvements to the system and retirement of revenue bonds. Financing is provided by user charges, state grants, and contributions from other municipalities and customers. This fund is classified as an enterprise fund because it is funded primarily through user charges.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes machinery, equipment and building space management services; liability, auto, and workers' compensation self-insurance; information technology services; and printing, mailing and reproduction services.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Pension trust fund. This fund accounts for the activities of the Employees' Retirement System, a defined-benefit pension plan, which accumulates resources for retirement benefit payments to qualified employees.

Private purpose trust. This fund primarily accounts for the Rabbi Trust deferred compensation program and other assets of non-profit organizations held for outside parties in an trustee capacity for purposes other than those that support the government's programs.

Agency fund. This fund accounts for taxes collected and distributed to other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the long-term portion of interfund loans).

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method, which approximates fair value. The costs of governmental fund-type inventories are recorded as expenditures when purchased, and are immaterial at year end.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain revenues and resources of the City are classified as restricted assets on the balance sheet and statement of net assets because their use is limited. Proprietary fund restricted assets are held subject to bond covenants and reserved for future capital expenditures.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital asset as: assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. In accordance with the provisions of GASB Statement No. 34, the government has only capitalized infrastructure assets acquired or constructed since 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings and building improvements	50
Water and wastewater system infrastructure	25-50
Vehicles	7-10
Office equipment	6-10
Machinery and equipment	3-10
Public infrastructure	50

6. *Compensated Absences*

Amounts of vested or accumulated vacation leave are accrued in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “termination leave” prior to retirement.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

7. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City adopts a formal budget for the general and special revenue funds. The City Charter requires that the City Manager submit to the City Commission an estimate of revenues and contemplated expenditures for the following calendar year by December 1. An interim appropriation resolution is passed by January 1 to continue normal operations and by February 1 of each year the City Commission passes an annual appropriation resolution approving the estimated expenditures. The City Manager is authorized to transfer budgeted amounts between expenditure control accounts within a department as long as the budgeted excess of revenues and other sources over (under) expenditures and other uses stays constant. Capital outlay expenditures in excess of the greater of \$10,000 or in amounts greater than 10 percent of any project cost, interdepartmental transfers, use of contingency funds and position classification changes require prior City Commission approval.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Formal budgetary integration is employed as a management control device during the year. Supplemental appropriations were approved by the City Commission in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations. Appropriations lapse at each year end, except for those approved for carry forward by the City Commission.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balance for governmental funds since they do not constitute expenditures or liabilities.

The budget has been prepared in accordance with U.S. generally accepted accounting principles (GAAP), with the exception that property tax revenues have been recognized in the year levied, even though they would not be fully available to finance operations of the current year (*see Note IV.B. for a further discussion*).

B. Budget/GAAP Reconciliation

The Schedules of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual are presented on the same basis of accounting used in preparing the adopted budget. The following schedule reconciles the amounts on those schedules to the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	<u>Budgetary Basis</u>	<u>Accounting Basis Difference</u>	<u>GAAP Basis</u>
General Fund:			
Deferred revenue	\$ 1,530,148	\$ 4,927,939	\$ 6,458,087
Property tax revenue	29,001,938	(624,088)	28,377,850
Fund balance, beginning of year *	8,547,883	(4,303,851)	4,244,032
Fund balance, end of year	7,098,407	(4,927,939)	2,170,468
Solid Waste Special Revenue Fund:			
Deferred revenue	-	443,500	443,500
Property tax revenue	2,694,691	(90,810)	2,603,881
Fund balance, beginning of year	380,165	(352,690)	27,475
Fund balance, end of year	492,792	(443,500)	49,292

*As restated (see Note IV.G.)

C. Excess of Expenditures Over Appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a department level basis in the General Fund, and at the fund level for other governmental funds, which is the legal level of control.

Expenditures in the combining and individual fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended December 31, 2004, the City incurred certain expenditures in excess of the amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over Budget</u>
General Fund:			
City Attorney	\$ 905,288	\$ 907,169	\$ 1,881

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

D. Deficit Fund Equity

The Public Works Equipment internal service fund had a deficit in unrestricted net assets of \$475,717 as of December 31, 2004, although its total net assets (including amounts invested in capital assets) amounted to a positive \$1,343,260. In addition, the Printing Services internal service fund had a deficit in unrestricted net assets of \$44,002 as of December 31, 2004; its total net assets (including amounts invested in capital assets and restricted net assets) amounted to a deficit of \$43,679.

The Downtown Development Authority and the Local Development Finance Authority component units had deficits in unrestricted net assets at December 31, 2004, of \$2,585,850 and \$1,872,353, respectively. These deficits existed as a result of presenting the financial statements for these component units on the full accrual basis, in accordance with GAAP. On a modified accrual fund basis, only the LDFA has a deficit fund balance, which was a planned deficit, as eligible expenditures were incurred in advance of tax increment financing revenues. The City plans to eliminate the deficit of the LDFA through future tax increment financing collections.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year end, the City's carrying amount of deposits, including component unit deposits of \$3,073,171, was \$26,224,616 and the bank balance was \$29,653,965. Of the bank balance, \$500,000 was covered by federal depository insurance. The remaining balance of \$29,153,965 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

At year end, the City's investment balances were as follows:

	<u>Category</u>				Carrying Amount (Fair Value)
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>	
Bankers' acceptances	\$ -	\$ -	\$ 1,996,380	\$ -	\$ 1,996,380
U.S. government securities	-	-	109,532,822	-	109,532,822
Corporate bonds	-	-	19,138,807	-	19,138,807
Corporate stocks	-	-	48,091,730	-	48,091,730
Total investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,759,739</u>	-	178,759,739
Mutual and cash management funds (uncategorized as to risk)				<u>311,156,538</u>	<u>311,156,538</u>
Total				<u>\$ 311,156,538</u>	<u>\$ 489,916,277</u>

Following is a reconciliation of cash and investments as shown in the financial statements:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 32,780,855	\$ 2,671,548	\$ 35,452,403
Investments	3,909,754	-	3,909,754
Restricted cash	5,485,954	1,670,081	7,156,035
Restricted investments	13,866,539	1,145,145	15,011,684
Investments with agents	2,377,048	-	2,377,048
Statement of Fiduciary Net Assets			
Cash and cash equivalents	13,568,569	-	13,568,569
Investments	438,636,172	-	438,636,172
Investments with agents	<u>35,853</u>	<u>-</u>	<u>35,853</u>
	<u>\$ 510,660,744</u>	<u>\$ 5,486,774</u>	<u>\$ 516,147,518</u>
Cash on hand			\$ 6,625
Bank deposits (checking accounts, savings accounts and CDs)			26,224,616
Investments in securities, mutual funds and similar vehicles			<u>489,916,277</u>
			<u>\$ 516,147,518</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

B. Receivables and Deferred Revenue

Receivables in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 2,717,694	\$ 161,444
Customer accounts	-	6,991,733
Taxes	6,856,543	-
Special assessments	267,672	64,338
Interest	73,269	2,278
Due from other governments	2,255,999	95,999
Notes	5,572,696	13,714
Due from component units	<u>11,256,033</u>	<u>413,749</u>
	<u>\$ 28,999,906</u>	<u>\$ 7,743,255</u>

Customer accounts receivable of the Wastewater and Water Enterprise Funds are reported net of allowances for uncollectible accounts of \$21,300 and \$49,800, respectively. Of the amounts presented above, approximately \$13.7 million is not expected to be collected within a period of one year.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in governmental activities were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental funds			
Property taxes receivable	\$ 5,371,439	\$ -	\$ 5,371,439
Grants and contracts received in advance of meeting all eligibility requirements	-	878,210	878,210
Long-term receivables	<u>15,531,563</u>	<u>-</u>	<u>15,531,563</u>
	20,903,002	878,210	21,781,212
Internal service funds			
Other	<u>-</u>	<u>17,600</u>	<u>17,600</u>
	<u>\$ 20,903,002</u>	<u>\$ 895,810</u>	<u>\$ 21,798,812</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

C. Capital Assets

Capital assets activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 29,503,118	\$ 13,081	\$ -	\$ 29,516,199
Construction in progress	111,474	16,910	(111,473)	16,911
Total capital assets not being depreciated	29,614,592	29,991	(111,473)	29,533,110
Capital assets being depreciated:				
Building & improvements	40,298,245	1,277,901	-	41,576,146
Land improvements	2,927,535	127,732	-	3,055,267
Machinery and equipment	8,234,517	1,476,267	(35,880)	9,674,904
Vehicles	10,347,156	1,009,772	(726,255)	10,630,673
Infrastructure	167,900,756	3,162,484	-	171,063,240
Total capital assets being depreciated	229,708,209	7,054,156	(762,135)	236,000,230
Accumulated depreciation:				
Building & improvements	(9,465,769)	(772,099)	-	(10,237,868)
Land improvements	(1,512,909)	(119,588)	-	(1,632,497)
Machinery and equipment	(5,058,192)	(637,763)	27,933	(5,668,022)
Vehicles	(6,526,196)	(1,049,058)	686,706	(6,888,548)
Infrastructure	(83,246,984)	(3,346,946)	-	(86,593,930)
Total accumulated depreciation	(105,810,050)	(5,925,454)	714,639	(111,020,865)
Total capital assets being depreciated, net	123,898,159	1,128,702	(47,496)	124,979,365
Governmental Activities				
capital assets, net	\$ 153,512,751	\$ 1,158,693	\$ (158,969)	\$ 154,512,475

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 3,017,720	\$ -	\$ -	\$ 3,017,720
Construction in progress	1,473,900	2,612,500	(761,138)	3,325,262
Total capital assets not being depreciated	4,491,620	2,612,500	(761,138)	6,342,982
Capital assets being depreciated:				
Building & improvements	88,887,614	394,719	-	89,282,333
Land improvements	11,215,931	293,584	(54,885)	11,454,630
Machinery and equipment	48,171,007	1,494,204	(2,821,280)	46,843,931
Infrastructure	121,964,941	5,414,088	(16,169)	127,362,860
Vehicles	3,856,625	172,640	(121,696)	3,907,569
Intangible assets	232,235	2,575	-	234,810
Total capital assets being depreciated	274,328,353	7,771,810	(3,014,030)	279,086,133
Accumulated depreciation:				
Building & improvements	(27,973,523)	(1,733,690)	-	(29,707,213)
Land improvements	(6,031,934)	(321,045)	54,885	(6,298,094)
Machinery and equipment	(33,634,482)	(2,056,990)	2,789,893	(32,901,579)
Infrastructure	(41,593,233)	(2,541,609)	16,115	(44,118,727)
Vehicles	(2,560,387)	(339,407)	121,696	(2,778,098)
Intangible assets	(11,612)	(23,352)	-	(34,964)
Total accumulated depreciation	(111,805,171)	(7,016,093)	2,982,589	(115,838,675)
Total capital assets being depreciated, net	162,523,182	755,717	(31,441)	163,247,458
Business-type activities capital assets, net	\$ 167,014,802	\$ 3,368,217	\$ (792,579)	\$ 169,590,440

Depreciation expense was charged to functions/programs of the primary government as follows:

Depreciation of governmental activities by function:

General government	\$ 378,253
Public safety (combined police & fire)	1,328,716
Community Development & Planning	20,286
Parks	234,177
Recreation	19,986
Public Works	6,231
Streets	3,347,524
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	590,281
	\$ 5,925,454

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Depreciation of business-type activities by function:

Wastewater	\$ 4,104,565
Water	2,475,253
Other	33,039
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>403,236</u>
	<u>\$ 7,016,093</u>

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, was as follows:

	<u>Receivables</u>	<u>Payables</u>
Due to/from other funds:		
General Fund	\$ 1,095,287	\$ 6,591,831
Major Street	164,852	167,448
Local Street	44,230	135,992
Solid Waste	25,913	113,851
Neighborhood and Community Development	18,819	9,131
Capital Improvement Projects	3,968	34,125
Nonmajor governmental funds	108,655	20,516
Wastewater	328,551	320,695
Water	847,118	571,263
Nonmajor enterprise funds	366	973
Internal service funds	<u>7,682,774</u>	<u>2,354,708</u>
	<u>\$ 10,320,533</u>	<u>\$ 10,320,533</u>
Advances to/from other funds:		
Local Street	\$ -	\$ 11,585
Capital Improvements Project	<u>11,585</u>	<u>-</u>
	<u>\$ 11,585</u>	<u>\$ 11,585</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the internal service funds.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	<u>Transfers In</u>	<u>Transfers Out</u>
Interfund transfers:		
General Fund	\$ 779,086	\$ 2,376,461
Major Street	15,946	2,341,763
Local Street	921,737	630,537
Solid Waste	14,657	299,850
Neighborhood and Community Development	9,254	19,018
Building Authority Debt Service	1,454,990	-
Capital Improvement Projects	2,333,519	2,400,049
Nonmajor governmental funds	3,590,685	207,344
Wastewater	173,501	-
Water	138,878	-
Nonmajor enterprise funds	366	-
Internal service funds	<u>-</u>	<u>1,157,597</u>
	<u>\$ 9,432,619</u>	<u>\$ 9,432,619</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

General Obligation Bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. In addition, general obligation bonds have been issued to refund both general obligation and revenue bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. These bonds are issued as serial bonds with varying amounts of principal maturing each year. The original amount of the general obligation bonds issued was \$64,040,000. General obligation bonds currently outstanding are as follows:

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds							
<i>Governmental Activities:</i>							
1992 Downtown Development	3/1/1992	5.50%-5.80%	1,975,000	\$ -	\$ 150,000	\$ 1,825,000	\$ 175,000
1993 Building Authority Parking System	3/1/1993	5.25%-5.90%	290,000	-	90,000	200,000	95,000
1993 Building Authority Parking System Refunding	6/15/1993	4.30%-5.25%	1,025,000	-	320,000	705,000	340,000
1993 Downtown Development Refunding	6/15/1993	4.30%-5.50%	2,480,000	-	190,000	2,290,000	200,000
1994 Building Authority General Facility Renovation	6/1/1994	4.70%-6.00%	145,000	-	145,000	-	-
1994 Building Authority Parking System	8/1/1994	4.60%-6.00%	675,000	-	145,000	530,000	155,000
1997 Building Authority Parking System Refunding	10/1/1997	3.90%-4.90%	1,260,000	-	5,000	1,255,000	5,000
1997 Downtown Development Refunding	10/1/1997	4.70%-5.35%	2,130,000	-	-	2,130,000	-
1998 Building Authority Refunding	11/17/1998	3.35%-5.25%	7,070,000	-	545,000	6,525,000	685,000
1998 Building Authority KMGA	12/1/1998	3.80%-5.00%	1,440,000	-	70,000	1,370,000	70,000
1999 Building Authority	9/1/1999	5.13%-5.38%	8,600,000	-	215,000	8,385,000	220,000
2000 Cork Street Environmental	4/24/2000	4.25%-4.50%	575,000	-	280,000	295,000	295,000
2001 Building Authority	4/1/2001	4.00%-5.00%	3,335,000	-	85,000	3,250,000	90,000
2002 Building Authority	1/1/2002	2.00%-4.75%	970,000	-	60,000	910,000	60,000
2002 Mayor's Riverfront Environmental	8/1/2002	2.50%-4.15%	1,155,000	-	265,000	890,000	280,000
2003 Building Authority	1/27/2003	1.75%-3.75%	1,940,000	-	175,000	1,765,000	175,000
2004 Capital Improvement	4/27/2004	2.00%-4.70%	-	8,415,000	-	8,415,000	645,000
Total General Obligation Bonds			\$ 35,065,000	\$ 8,415,000	\$ 2,740,000	\$ 40,740,000	\$ 3,490,000

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2005	\$ 3,490,000	\$ 1,849,339
2006	3,015,000	1,717,398
2007	3,035,000	1,592,357
2008	2,840,000	1,467,587
2009	2,960,000	1,345,664
2010 - 2014	13,285,000	4,923,340
2015 - 2019	6,885,000	2,325,810
2020 - 2024	3,565,000	1,036,698
2025 - 2029	1,665,000	135,996
Total	\$ 40,740,000	\$ 16,394,188

Revenue Bonds. The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued was \$18,010,000 for governmental activities and \$29,435,000 for business-type activities. Revenue bonds outstanding at year end are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds							
<i>Governmental Activities:</i>							
1994 Michigan Transportation Fund	6/1/1994	4.75%-5.90%	\$ 580,000	\$ -	\$ 105,000	\$ 475,000	\$ 110,000
1996 Michigan Transportation Fund	3/1/1996	3.90%-5.10%	1,590,000	-	160,000	1,430,000	170,000
1998 Michigan Transportation Fund	4/1/1998	3.60%-4.75%	1,690,000	-	130,000	1,560,000	140,000
2000 Michigan Transportation Fund	4/24/2000	4.88%-5.13%	2,455,000	-	150,000	2,305,000	155,000
2002 Michigan Transportation Fund Refunding	4/1/2002	2.50%-4.88%	3,805,000	-	970,000	2,835,000	560,000
2004 Michigan Transportation Fund Refunding	4/27/2004	3.00%-3.70%	-	4,320,000	-	4,320,000	395,000
<i>Total Governmental Activities</i>			10,120,000	4,320,000	1,515,000	12,925,000	1,530,000
<i>Business-Type Activities:</i>							
1995 Water System	2/1/1995	5.50%-6.00%	385,000	-	185,000	200,000	200,000
1996 Water System	6/1/1996	5.13%-5.63%	3,240,000	-	205,000	3,035,000	205,000
2001 Wastewater System Refunding	4/1/2001	3.00%-5.00%	4,385,000	-	180,000	4,205,000	185,000
2002 Water System Refunding	6/6/2002	4.50%-4.75%	8,775,000	-	395,000	8,380,000	420,000
2002 Water System Refunding	10/23/2002	2.00%-3.88%	3,105,000	-	50,000	3,055,000	50,000
2004 Water System Refunding	4/27/2004	2.00%-4.65%	-	5,010,000	-	5,010,000	135,000
<i>Total Business-Type Activities</i>			19,890,000	5,010,000	1,015,000	23,885,000	1,195,000
<i>Total Revenue Bonds</i>			\$ 30,010,000	\$ 9,330,000	\$ 2,530,000	\$ 36,810,000	\$ 2,725,000

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for revenue bonds are as follows:

Years Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 1,530,000	\$ 497,816	\$ 1,195,000	\$ 1,248,406
2006	1,590,000	464,716	1,245,000	1,030,691
2007	1,185,000	398,502	1,295,000	983,123
2008	1,230,000	348,038	1,345,000	931,693
2009	1,150,000	295,002	1,405,000	877,203
2010 - 2014	5,565,000	749,045	8,020,000	3,393,526
2015 - 2019	675,000	36,393	6,430,000	1,540,523
2020 - 2024	-	-	1,515,000	512,736
2025 - 2029	-	-	1,435,000	206,258
Total	\$ 12,925,000	\$ 2,789,509	\$ 23,885,000	\$ 10,724,159

Special

Assessment Debt. The City issues special assessment limited tax bonds to provide funds for certain downtown street improvement projects. The City intends to repay this debt through collections of special assessments. However, these bonds are backed by the full faith and credit of the City and, in the event that special assessment revenues are insufficient to cover debt service expenditures, the City is obligated to make up any shortfall. Management considers the likelihood of this occurring to be extremely remote. The original amount of special assessment bonds was \$680,000. Special assessment bonds outstanding at year end are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special Assessment Bonds							
Governmental Activities:							
1999 Special Assessment Limited Tax Bonds	9/1/1999	4.40%-7.00%	\$ 475,000	\$ -	\$ 50,000	\$ 425,000	\$ 45,000

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for special assessment bonds are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2005	\$ 45,000	\$ 20,825
2006	45,000	18,800
2007	50,000	16,730
2008	50,000	14,380
2009	50,000	11,980
2010 - 2014	185,000	24,180
Total	\$ 425,000	\$ 106,895

Installment Obligations. The City has entered into various long-term installment payment agreements which are similar in nature to bonds. The original amount of installment obligations issued was \$5,097,055 for governmental activities and \$795,000 for business-type activities. Installment obligations outstanding at December 31, 2004, are as follows:

	Issuance Date	Interest Rates	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Installment Purchase Contracts							
<i>Governmental Activities:</i>							
1994 Downtown Festival Site Installment Purchase Obligation	9/28/1994	5.38%	\$ 86,000	\$ -	\$ 86,000	\$ -	\$ -
1995 Sutherland Bleachers Installment Purchase Obligation	12/1/1995	6.25%-7.30%	420,000	-	240,000	180,000	180,000
1997 Fire Equipment	6/16/1997	5.60%	504,800	-	116,400	388,400	122,700
1999 Fire Equipment	9/1/1999	4.65%	63,080	-	63,080	-	-
2000 Fire Equipment	6/22/2000	5.35%	164,000	-	80,000	84,000	84,000
2000 Cable Access	7/24/2000	5.38%	277,000	-	56,000	221,000	60,000
2001 KMG	3/20/2001	4.65%	69,000	-	69,000	-	-
2002 KMG	3/12/2002	4.08%	142,204	-	45,519	96,685	47,376
Total Governmental Activities			1,726,084	-	755,999	970,085	494,076
<i>Business-Type Activities:</i>							
1994 Water System	12/16/1994	6.60%	105,000	-	105,000	-	-
Total Installment Purchase Contracts			\$ 1,831,084	\$ -	\$ 860,999	\$ 970,085	\$ 494,076

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for installment obligations are as follows:

Years Ending December 31	Governmental Activities	
	Principal	Interest
2005	\$ 494,076	\$ 55,102
2006	241,709	24,712
2007	202,300	12,014
2008	21,000	1,451
2009	11,000	296
Total	\$ 970,085	\$ 93,575

Other Debt. The City has also recorded liabilities related to certain environmental matters, accumulated compensated absences and a tax tribunal payable.

Environmental matters represent the City's share of estimated costs associated with the cleanup of certain sites with soil contamination for which the City is named as a potentially responsible party.

The accumulated compensated absences represent the estimated liability to be paid to governmental fund type employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the government. For the governmental activities, compensated absences, the uninsured claim liability, and death benefits payable are generally liquidated by the insurance and benefits internal service fund. Other sundry long-term liabilities are generally liquidated by the General Fund.

Advance and Current Refundings. In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At December 31, 2004, \$2,979,290 of bonds outstanding from current and prior year refundings are considered defeased.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

No Commitment Debt. Excluded from the statement of net assets are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings and equipment. Also excluded are revenue bonds issued by the Economic Development Corporation and Hospital Finance Authority to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenue derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts, amounting to \$502,094,240, are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable sources.

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds	\$ 35,065,000	\$ 8,415,000	\$ 2,740,000	\$ 40,740,000	\$ 3,490,000
Revenue bonds	10,120,000	4,320,000	1,515,000	12,925,000	1,530,000
Special assessment bonds	475,000	-	50,000	425,000	45,000
Installment purchase contracts	1,726,084	-	755,999	970,085	494,076
Compensated absences	5,595,754	1,654,176	818,004	6,431,926	819,877
Public safety comp time	464,690	79,513	234,127	310,076	155,038
Environmental matters	1,836,962	-	558,980	1,277,982	5,000
Tax tribunal payable	357,136	-	119,046	238,090	119,045
Uninsured claim liability	4,808,735	-	1,084,497	3,724,238	1,380,904
Death benefits payable	252,925	-	342	252,583	-
Total Governmental Activities	\$ 60,702,286	\$ 14,468,689	\$ 7,875,995	\$ 67,294,980	\$ 8,038,940
Business-Type Activities					
Revenue bonds	19,890,000	5,010,000	1,015,000	23,885,000	1,195,000
Installment purchase contracts	105,000	-	105,000	-	-
Compensated absences	1,746,241	723,448	673,309	1,796,380	224,547
Total Business-Type Activities	\$ 21,741,241	\$ 5,733,448	\$ 1,793,309	\$ 25,681,380	\$ 1,419,547

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

F. Short-Term Debt

The City issued and repaid \$5,500,000 of tax revenue anticipation notes during the year ended December 31, 2004. The purpose of this short-term debt is to provide liquidity for governmental operations financed by property taxes, which are collected throughout the year.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (i.e., workers' compensation), as well as medical and death benefits provided to employees. The City has purchased commercial insurance for excess claims for workers' compensation, medical claims, general and auto liability, auto physical damage and property loss claims. The City is primarily self-insured for workers' compensation, medical claims, general liability and property damage claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for its self-insured coverages and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the City's third-party administrators for claims management and are recorded in the Insurance and Benefits internal service fund. The long-term portion of the workers' compensation liability has been discounted at a 6 percent present value factor. Changes in the estimated liability are as follows:

	<u>2004</u>	<u>2003</u>
Estimated liability, beginning of year	\$5,061,660	\$3,669,380
Estimated claims incurred, including changes in estimates	4,402,559	6,500,000
Claim payments	<u>(5,487,398)</u>	<u>(5,107,720)</u>
Estimated liability, end of year	<u>\$3,976,821</u>	<u>\$5,061,660</u>

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

B. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 and are levied on July 1. The City bills and collects its own property taxes for general governmental services, solid waste collection and downtown development and also collects taxes for the Metro Transit System, Kalamazoo County, Kalamazoo Valley Community College, the District Library and various school districts. Collections of property taxes and remittances of them to the appropriate authorities are accounted for in the Tax Collector's Agency Fund.

The City is permitted by State law to levy taxes up to \$20.00 per \$1,000 of assessed valuation of property for general governmental services other than the payment of principal and interest on long-term debt. The authority to tax the residents for the payment of principal and interest on long-term debt is obtained when the debt is approved by a vote of the people. The City's current year tax rate was the maximum \$19.2705 per \$1,000 of assessed valuation for general operations (after applying the Headlee constitutional rollback adjustment).

The City is currently levying \$1.87 per \$1,000 of assessed valuation for solid waste collection. State laws allow an additional nonvoted solid waste levy of \$1.65 per \$1,000 of assessed valuation.

The Metro Transit System is permitted by P.A. 55 of the Public Acts of 1963, as amended, to levy a tax to assist in the operation of the transit system. During the current year, the System levied a voted millage of \$1.00 per \$1,000 of assessed valuation.

The Downtown Development Authority is permitted by P.A. 197 of Michigan to levy taxes up to \$2.00 per \$1,000 of assessed valuation of property in the downtown district. The Authority's current year tax rate was the maximum \$2.00 per \$1,000 of assessed valuation.

Taxpayers may elect to pay their tax bills in 12 equal monthly installments beginning on July 1 and on the first day of each of the next 11 months. As a result, for those taxpayers electing the installment payment plan, up to one-half of their property tax levy is collected after the fiscal year end. Because a portion of those taxes are due and collected more than 60 days after year end, they are not susceptible to accrual. Accordingly, those amounts are recorded as deferred revenue as of December 31 and then recognized as revenue in the subsequent year.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

For budgeting purposes, the taxes levied in the current year are intended to finance the operations of the current year. Therefore, the Schedules of Revenue, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual include the full amount of the current year tax levy as revenue of the current year, to be consistent with the budget presentation.

C. Contingent Liabilities

Lawsuits

The City is a defendant in various legal actions arising in the normal course of its activities including certain discrimination cases on file with the Equal Employment Opportunity Commission and the Michigan Department of Civil Rights. In the opinion of the City Attorney and management, the potential uninsured liability that may result from these actions should not exceed amounts either reserved in the Insurance and Benefits Fund (an internal service fund) or included in funds maintained by the City's claims administrators.

Environmental

The City of Kalamazoo has identified a number of sites within its boundaries that are in need of environmental remediation. Some are privately-held properties, and some are owned by the County and/or the City of Kalamazoo. The City of Kalamazoo has been named as a Potentially-Responsible Party (PRP) by the U.S. Environmental Protection Agency (EPA) in two such sites: the Cork Street Landfill and the Auto Ion site. The City has also entered into cleanup agreements, although not named as a PRP, for two other sites. Based on currently-available information, the City has recorded liabilities for the net present value of estimated response costs for these sites in the amount of \$1,277,982 in the government-wide statements. The City has set aside \$1.29 million in its Cork Street Landfill construction fund to cover the estimated net present value of costs associated with that site, leaving an estimated \$8,081 in environmental liabilities that need to be funded with future resources over the next twenty years. The landfills do not accept municipal waste as defined by the EPA; therefore, the Government Accounting Standard Board rules on closure and post-closure care costs do not apply.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The City has entered into trust agreements for three of these sites. It acts as Executive Agent for the Cork Street Landfill Trust, the other two trusts being administered by other parties. The Cork Street Landfill Trust is recorded in the Cork Street Landfill Cap Construction Fund. In 2000, the City issued \$1.3 million in environmental bonds for a portion of its share of the costs for the Cork Street landfill. The proceeds of the bonds were placed in the trust; however, the City is solely responsible for the repayment of those bonds, the outstanding balance of which is recorded in the Statement of Net Assets.

The City also has identified a number of additional environmental issues that need to be addressed in the next two to four years. In most of these environmental issues, the City has not been identified as a PRP and, in all of the issues, the City has not determined the ultimate exposure, if any, for these sites. Accordingly, no provision for any loss that may result from the resolution of these matters has been recorded in the financial statements.

Commitments

The City is obligated for construction contracts relating to various construction projects in the amount of \$5,064,569. These commitments are not susceptible to accrual. Accordingly, no liabilities have been recorded in the basic financial statements. However, \$2,286,021 of these commitments were made by governmental funds and are, therefore, included within the reservations of fund balance for encumbrances.

D. Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with its labor contracts. Currently, 1,549 retirees are eligible to receive these benefits. The City includes pre-Medicare retirees and their dependents in its self-insured health care plan. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as they become due; during the year, this amounted to \$4,339,644 (net of \$325,085 of retiree contributions).

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

E. Defined Benefit Pension Plan

Plan Description

The Employees' Retirement System is the administrator of a single-employer public employees defined benefit retirement system that covers all employees of the City. The Plan was originally established by City ordinance on February 5, 1952 and is maintained as a Pension Trust Fund in the accompanying financial statements. Plan benefit provisions were established and may be amended under the authority of City ordinances. The system provides retirement benefits, as well as death and disability benefits. The system issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to the City of Kalamazoo Employees' Retirement System, 241 W. South Street, Kalamazoo, MI 49007.

Summary of Significant Accounting Policies

The financial statements of the Employees' Retirement System are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values.

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City Commission. Plan members are required to contribute at rates ranging from 1.0% to 6.5% of their annual covered salary, depending on union affiliation. The City is required to contribute at an actuarially determined rate; no employer contributions were required for 2004.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation (NPO) for the current year were as follows:

Annual required contribution (ARC)	\$ -
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	-
Contributions made	-
Increase (decrease) in net pension obligation	-
Net pension obligation - Beginning of year	-
Net pension obligation - End of year	<u>\$ -</u>

The annual required contributions for 2004 were determined as part of an actuarial valuation of the System as of December 31, 2003, using the individual attained age normal cost actuarial funding method. The actuarial assumptions included: (a) a nominal rate of return on investments, net of expenses, of 7.5% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0% to 8.0% per year, depending on age and service, attributable to seniority/merit; and (d) the assumption that pension benefits will increase after retirement from 1.0% to 2.0% per year depending on the bargaining unit, age, and the date of retirement. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was ten years for the System.

CITY OF KALAMAZOO, MICHIGAN

Notes To Financial Statements

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period.

Three-Year Trend Information

<u>Years Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ -0-	-%	\$ -0-
2003	-0-	-	-0-
2004	-0-	-	-0-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section of this report.

F. Subsequent Event

Subsequent to year end, the City issued \$7,325,000 of Building Authority Bonds. The bonds were dated and available for delivery on April 11, 2005.

G. Restatements and Reclassifications

Beginning net assets of the General Fund and governmental activities were decreased by \$91,004 to reflect a correction of the beginning cash balance.

* * * * *

CITY OF KALAMAZOO, MICHIGAN
Employees' Retirement System
Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Overfunded AAL (OAAL) (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	OAAL as A % of Covered Payroll
12/31/1995	\$ 180,374,616	\$ 139,177,079	\$ 41,197,537	129.6%	\$ 34,894,267	118.1%
12/31/1996	200,667,842	146,734,144	53,933,698	136.8%	34,888,439	154.6%
12/31/1997	242,709,209	161,366,282	81,342,927	150.4%	35,791,434	227.3%
12/31/1998	267,250,249	167,726,504	99,523,745	159.3%	35,607,350	279.5%
12/31/1999	303,750,495	192,167,206	111,583,289	158.1%	37,541,170	297.2%
12/31/2000	331,521,519	208,070,230	123,451,289	159.3%	39,377,238	313.5%
12/31/2001	349,206,708	220,302,430	128,904,278	158.5%	41,595,437	309.9%
12/31/2002	348,677,897	230,979,927	117,697,970	151.0%	40,316,918	291.9%
12/31/2003	361,205,383	245,919,424	115,285,959	146.9%	40,914,264	281.8%
12/31/2004	390,615,277	265,080,190	125,535,087	147.4%	41,989,819	299.0%

Schedule of Employer Contributions

Year Ended December 31	Annual Required Contributions	Percentage Contributed
1995	\$ 1,889,474	100%
1996	1,500,400	100%
1997	840,966	100%
1998	-	-
1999	-	-
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	-	-

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004

	Special Revenue Funds	Debt Service Funds	Capital Projects Building Authority Justice Facilities	Permanent Funds	Total Nonmajor Governmental Funds
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 2,913,254	\$ 134,046	\$ 23,029	\$ 18,168	\$ 3,088,497
Investments	-	-	-	3,909,754	3,909,754
Receivables:					
Notes	636,724	-	-	-	636,724
Special assessments	-	205,651	-	-	205,651
Accrued interest	18,136	-	-	-	18,136
Other	123,964	815,520	-	1,008	940,492
Due from other funds	66,243	42,412	-	-	108,655
Due from component units	-	96,685	-	-	96,685
Due from other governments	341,432	-	-	-	341,432
Advances to component units	1,709,911	-	-	-	1,709,911
Investments with agents	17,760	-	-	836,368	854,128
<u>TOTAL ASSETS</u>	\$ 5,827,424	\$ 1,294,314	\$ 23,029	\$ 4,765,298	\$ 11,910,065
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 268,568	\$ 563	\$ -	\$ -	\$ 269,131
Accrued and other liabilities	252,271	-	-	4,593	256,864
Due to other funds	20,298	137	81	-	20,516
Due to other governments	94,441	-	-	-	94,441
Deposits payable	3,040	-	-	-	3,040
Deferred revenue	862,181	1,117,856	-	-	1,980,037
Total liabilities	1,500,799	1,118,556	81	4,593	2,624,029
Fund balance					
Reserved for:					
Encumbrances	119,639	-	-	-	119,639
Advances to component units	1,709,911	-	-	-	1,709,911
Cemetery perpetual care	-	-	-	1,735,160	1,735,160
Recreational activities	-	-	-	836,368	836,368
Unreserved:					
Designated for subsequent years' expenditures	462,057	-	-	-	462,057
Undesignated	2,035,018	175,758	22,948	2,189,177	4,422,901
Total fund balance	4,326,625	175,758	22,948	4,760,705	9,286,036
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 5,827,424	\$ 1,294,314	\$ 23,029	\$ 4,765,298	\$ 11,910,065

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2004

	Special Revenue Funds	Debt Service Funds	Capital Projects Building Authority Justice Facilities	Permanent Funds	Total Nonmajor Governmental Funds
Revenue					
Property taxes and special assessments	\$ -	\$ 42,133	\$ -	\$ -	\$ 42,133
Intergovernmental revenue	1,097,303	-	-	-	1,097,303
Charges for services	164,374	-	-	32,693	197,067
Fines and forfeits	269,133	-	-	-	269,133
Interest and dividends	99,721	1,370	371	111,661	213,123
Net investment earnings	-	-	-	662,985	662,985
Local contributions	-	-	-	2,327	2,327
Other revenue	328,809	192,283	-	-	521,092
Total revenue	1,959,340	235,786	371	809,666	3,005,163
Expenditures					
Current expenditures:					
Public safety	1,114,945	-	-	-	1,114,945
Economic Development	487,711	-	-	-	487,711
Community Development & Planning	263,964	-	-	-	263,964
Recreation	208,689	-	-	3,319	212,008
Cemeteries	389,755	-	-	23,253	413,008
Debt service:					
Principal	-	2,779,999	-	-	2,779,999
Interest and fiscal charges	-	797,890	-	-	797,890
Capital outlay	-	-	13,809	-	13,809
Total expenditures	2,465,064	3,577,889	13,809	26,572	6,083,334
Excess (deficiency) of revenue over expenditures	(505,724)	(3,342,103)	(13,438)	783,094	(3,078,171)
Other financing sources (uses)					
Transfers in	278,476	3,312,209	-	-	3,590,685
Transfers out	-	-	-	(207,344)	(207,344)
Total other financing sources (uses)	278,476	3,312,209	-	(207,344)	3,383,341
Net change in fund balances	(227,248)	(29,894)	(13,438)	575,750	305,170
Fund balance, beginning of year	4,553,873	205,652	36,386	4,184,955	8,980,866
Fund balance, end of year	\$ 4,326,625	\$ 175,758	\$ 22,948	\$ 4,760,705	\$ 9,286,036

NONMAJOR SPECIAL REVENUE FUNDS

Cemeteries - This fund is used to account for the earmarked revenues set aside for the purpose of operating the City's cemeteries. This fund is classified as a Special Revenue Fund because of the comparatively limited usage of the assets in this fund.

Grants and Donations - This fund is used to account for various programs funded by grants and/or donations that are not accounted for in the other special revenue funds.

Economic Development Programs - This fund is used to account for monies appropriated by the City Commission for economic development activities, such as business loans and loans to the Economic Development Corporation component unit.

Drug Enforcement - This fund is used to account for proceeds of forfeited property seized in connection with a violation of the controlled substance statutes, Public Act 135 of 1985 (MCLA 333,7521-7524). This fund is classified as a Special Revenue Fund because of the limited usage of its assets.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Special Revenue Funds
December 31, 2004

	Cemeteries	Grants and Donations	Economic Development Programs	Drug Enforcement	Total
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 1,242	\$ 154,995	\$ 1,330,543	\$ 1,426,474	\$ 2,913,254
Receivables:					
Notes	-	-	636,724	-	636,724
Accrued interest	-	-	18,136	-	18,136
Other	8,548	43,416	72,000	-	123,964
Due from other funds	25,574	38,990	-	1,679	66,243
Due from other governments	-	340,904	-	528	341,432
Advances to component units	-	-	1,709,911	-	1,709,911
Investments with agents	-	17,760	-	-	17,760
<u>TOTAL ASSETS</u>	\$ 35,364	\$ 596,065	\$ 3,767,314	\$ 1,428,681	\$ 5,827,424
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ 6,995	\$ 257,752	\$ -	\$ 3,821	\$ 268,568
Accrued and other liabilities	902	8,877	-	242,492	252,271
Due to other funds	8,405	759	95	11,039	20,298
Due to other governments	-	-	94,441	-	94,441
Deposits payable	-	-	-	3,040	3,040
Deferred revenue	1,435	133,886	726,860	-	862,181
Total liabilities	17,737	401,274	821,396	260,392	1,500,799
Fund balance					
Reserved for:					
Encumbrances	-	-	118,139	1,500	119,639
Advances to component units	-	-	1,709,911	-	1,709,911
Unreserved:					
Designated for subsequent years' expenditures	-	-	-	462,057	462,057
Undesignated	17,627	194,791	1,117,868	704,732	2,035,018
Total fund balance	17,627	194,791	2,945,918	1,168,289	4,326,625
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 35,364	\$ 596,065	\$ 3,767,314	\$ 1,428,681	\$ 5,827,424

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended December 31, 2004

	Cemeteries	Grants and Donations	Economic Development Programs	Drug Enforcement	Total
Revenue					
Intergovernmental revenue	\$ -	\$ 1,085,099	\$ -	\$ 12,204	\$ 1,097,303
Charges for services	164,374	-	-	-	164,374
Fines and forfeits	-	-	-	269,133	269,133
Interest revenue	3,419	2,213	78,910	15,179	99,721
Other revenue	-	191,296	85,366	52,147	328,809
Total revenue	167,793	1,278,608	164,276	348,663	1,959,340
Expenditures					
Current expenditures:					
Public safety (combined police and fire)	-	640,718	-	474,227	1,114,945
Cemeteries	389,755	-	-	-	389,755
Economic Development	-	277,677	210,034	-	487,711
Community Development & Planning	-	263,964	-	-	263,964
Recreation	-	208,689	-	-	208,689
Total expenditures	389,755	1,391,048	210,034	474,227	2,465,064
(Deficiency) of revenue over expenditures	(221,962)	(112,440)	(45,758)	(125,564)	(505,724)
Other financing sources (uses)					
Transfers in	212,658	64,139	-	1,679	278,476
Net change in fund balances	(9,304)	(48,301)	(45,758)	(123,885)	(227,248)
Fund balance, beginning of year	26,931	243,092	2,991,676	1,292,174	4,553,873
Fund balance, end of year	\$ 17,627	\$ 194,791	\$ 2,945,918	\$ 1,168,289	\$ 4,326,625

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Cemeteries Fund
For the Year Ended December 31, 2004

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Charges for services - public services	\$ 181,950	\$ 164,374	\$ (17,576)
Interest	3,850	3,419	(431)
Total revenue	185,800	167,793	(18,007)
Expenditures			
Cemeteries:			
Maintenance	242,306	229,525	12,781
Burials	165,504	160,230	5,274
Total expenditures	407,810	389,755	18,055
(Deficiency) of expenditures over revenue	(222,010)	(221,962)	48
Other financing sources			
Transfers in:			
Cemeteries' Perpetual Care	207,344	207,344	-
Insurance and Benefits	5,300	5,314	14
Total other financing sources	212,644	212,658	14
Net change in fund balance	(9,366)	(9,304)	62
Fund balance, beginning of year	26,931	26,931	-
Fund balance, end of year	\$ 17,565	\$ 17,627	\$ 62

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Grants and Donations Fund
For the Year Ended December 31, 2004

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue:			
Federal grants	\$ 1,382,288	\$ 682,925	\$ (699,363)
State grants	572,294	402,174	(170,120)
Interest revenue	-	2,213	2,213
Local contributions	77,435	191,296	113,861
	<hr/>	<hr/>	<hr/>
Total revenue	2,032,017	1,278,608	(753,409)
	<hr/>	<hr/>	<hr/>
Expenditures			
Public safety (combined police and fire)	1,202,482	640,718	561,764
Economic development	487,339	277,677	209,662
Community development	521,333	263,964	257,369
Parks and recreation	88,858	208,689	(119,831)
	<hr/>	<hr/>	<hr/>
Total expenditures	2,300,012	1,391,048	908,964
	<hr/>	<hr/>	<hr/>
(Deficiency) of expenditures over revenue	(267,995)	(112,440)	155,555
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
General Fund	15,075	43,175	28,100
Neighborhood and Community Development	50,163	19,018	(31,145)
Insurance and Benefits	-	1,946	1,946
	<hr/>	<hr/>	<hr/>
Total other financing sources	65,238	64,139	(1,099)
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(202,757)	(48,301)	154,456
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	243,092	243,092	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 40,335	\$ 194,791	\$ 154,456
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Economic Development Programs Fund
For the Year Ended December 31, 2004

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Interest	\$ -	\$ 78,910	\$ 78,910
Other revenue	-	85,366	85,366
Total revenue	-	164,276	164,276
Expenditures			
Economic Development:			
Small Business Revolving Loan	120,000	120,000	-
Economic Opportunity Fund	90,000	90,034	(34)
Total expenditures	210,000	210,034	(34)
Net change in fund balance	(210,000)	(45,758)	164,242
Fund balance, beginning of year	2,991,676	2,991,676	-
Fund balance, end of year	\$ 2,781,676	\$ 2,945,918	\$ 164,242

CITY OF KALAMAZOO, MICHIGAN
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
Drug Enforcement Fund
For the Year Ended December 31, 2004

	Amended Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue			
Intergovernmental revenue - federal grants	\$ 30,000	\$ 12,204	\$ (17,796)
Fines and forfeits	110,000	269,133	159,133
Interest	30,000	15,179	(14,821)
Other revenue	15,000	52,147	37,147
Total revenue	185,000	348,663	163,663
Expenditures			
Public safety (combined police and fire)	625,568	474,227	151,341
Excess (deficiency) of revenue over expenditures	(440,568)	(125,564)	315,004
Other financing sources			
Transfers in from Insurance and Benefits	-	1,679	1,679
Net change in fund balance	(440,568)	(123,885)	316,683
Fund balance, beginning of year	1,292,174	1,292,174	-
Fund balance, end of year	\$ 851,606	\$ 1,168,289	\$ 316,683

NONMAJOR DEBT SERVICE FUNDS

Special Assessments - This fund is used to account for the debt service activity of the Special Assessments bond issue. Financing is provided through the collection of special assessments from benefiting property owners.

Michigan Transportation Fund - This fund is used to account for the debt service activity of the Michigan Transportation Fund bond issues. Financing is provided by transfers from the Major and Local Streets Special Revenue Funds.

Environmental - This fund is used to account for the debt service activity of the City's environmental issues. Financing is provided through transfers from other funds.

Installment Purchase Contracts - This fund is used to account for the debt service activity of the City's installment obligations. Financing is provided through transfers from other funds and facility rentals.

Mayors' Riverfront Park - This fund is used to account for debt service activity, both public and private, for the debt issued for the City's Mayors' Riverfront Park.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Debt Service Funds
December 31, 2004

	Special Assessments	Michigan Transportation Fund	Environmental
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 133,996	\$ -	\$ -
Receivables:			
Special assessments	205,651	-	-
Other	-	-	-
Due from other funds	42,149	-	138
Due from component units	-	-	-
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 381,796</u>	<u>\$ -</u>	<u>\$ 138</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accounts payable	\$ 300	\$ -	\$ 138
Due to other funds	137	-	-
Deferred revenue	205,651	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	206,088	-	138
Fund balance			
Unreserved, undesignated	175,708	-	-
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$ 381,796</u>	<u>\$ -</u>	<u>\$ 138</u>

Installment Purchase Contracts	Mayors' Riverfront Park	Total
\$ 50	\$ -	\$ 134,046
-	-	205,651
221,000	594,520	815,520
-	125	42,412
96,685	-	96,685
<u>\$ 317,735</u>	<u>\$ 594,645</u>	<u>\$ 1,294,314</u>

\$ -	\$ 125	\$ 563
-	-	137
317,685	594,520	1,117,856
317,685	594,645	1,118,556
50	-	175,758
<u>\$ 317,735</u>	<u>\$ 594,645</u>	<u>\$ 1,294,314</u>

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended December 31, 2004

	Special Assessments	Michigan Transportation Fund	Environmental
Revenue			
Special assessments	\$ 42,133	\$ -	\$ -
Interest	1,370	-	-
Other revenue	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenue	43,503	-	-
	<hr/>	<hr/>	<hr/>
Expenditures			
Debt service:			
Principal	50,000	1,515,000	280,000
Interest and fiscal charges	23,447	512,153	19,850
	<hr/>	<hr/>	<hr/>
Total expenditures	73,447	2,027,153	299,850
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	(29,944)	(2,027,153)	(299,850)
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in:			
Major Streets Fund	-	1,436,763	-
Local Streets Fund	-	590,390	-
Solid Waste Fund	-	-	299,850
Capital Improvements Project Fund	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources	-	2,027,153	299,850
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(29,944)	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	205,652	-	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 175,708	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Installment Purchase Contracts	Mayors' Riverfront Park	Total
\$ -	\$ -	\$ 42,133
-	-	1,370
192,283	-	192,283
192,283	-	235,786
669,999	265,000	2,779,999
201,870	40,570	797,890
871,869	305,570	3,577,889
(679,586)	(305,570)	(3,342,103)
-	-	1,436,763
40,147	-	630,537
-	-	299,850
639,489	305,570	945,059
679,636	305,570	3,312,209
50	-	(29,894)
-	-	205,652
\$ 50	\$ -	\$ 175,758

NONMAJOR PERMANENT FUNDS

Cemetery Perpetual Care - This fund is used to account for money held in trust for the perpetual care of graves in the City cemeteries. Revenues consist of interest earnings from the investments, gain on sale of investments and charges for services.

Recreational Endowment - This fund is used to account for monies accumulated for the eventual endowment of recreation activities. Revenues consist of donations and interest earnings of the endowment fund.

CITY OF KALAMAZOO, MICHIGAN
Combining Balance Sheet
Nonmajor Permanent Funds
December 31, 2004

	Cemetery Perpetual Care Fund	Recreation Endowment Funds	Total
<hr/>			
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 18,168	\$ -	\$ 18,168
Investments	3,909,754	-	3,909,754
Accounts receivable	1,008	-	1,008
Investments with agents	-	836,368	836,368
	<hr/>		
<u>TOTAL ASSETS</u>	\$ 3,928,930	\$ 836,368	\$ 4,765,298
<hr/>			
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities			
Accrued and other liabilities	\$ 4,593	\$ -	\$ 4,593
	<hr/>		
Fund balance			
Reserved for:			
Cemetery perpetual care	1,735,160	-	1,735,160
Recreational activities	-	836,368	836,368
Unreserved, undesignated	2,189,177	-	2,189,177
	<hr/>		
Total fund balance	3,924,337	836,368	4,760,705
	<hr/>		
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	\$ 3,928,930	\$ 836,368	\$ 4,765,298
	<hr/>		

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Permanent Funds
For the Year Ended December 31, 2004

	Cemetery Perpetual Care Fund	Recreation Endowment Funds	Total
Revenue			
Charges for services	\$ 32,693	\$ -	\$ 32,693
Interest and rent	111,661	-	111,661
Net investment earnings	582,295	80,690	662,985
Local contributions	-	2,327	2,327
	<hr/>	<hr/>	<hr/>
Total revenue	726,649	83,017	809,666
	<hr/>	<hr/>	<hr/>
Expenditures			
Current expenditures:			
Recreation	-	3,319	3,319
Cemeteries	23,253	-	23,253
	<hr/>	<hr/>	<hr/>
Total expenditures	23,253	3,319	26,572
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenue over expenditures	703,396	79,698	783,094
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers out	(207,344)	-	(207,344)
	<hr/>	<hr/>	<hr/>
Net change in fund balance	496,052	79,698	575,750
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	3,428,285	756,670	4,184,955
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 3,924,337	\$ 836,368	\$ 4,760,705
	<hr/>	<hr/>	<hr/>

NONMAJOR ENTERPRISE FUNDS

City Market Fund - This fund is used to record the operations of a *Farmers' Market*. The fund is classified as an enterprise fund because it does business outside the local unit. Money for the operation of this fund is provided by revenues from the rent charged to the users of the market.

Intermodal Transportation Center Fund - This fund is used to record the operations of an intermodal transportation center and any related grants from the Michigan Department of Transportation. The fund is classified as an enterprise fund because it provides services to persons outside the local unit. Revenues include service fees, state grants and General Fund contributions.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Nonmajor Enterprise Funds
December 31, 2004

	City Market	Intermodal Transportation Center	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 36,339	\$ 6,636	\$ 42,975
Accounts receivable - customers	7,881	26,873	34,754
Due from other funds	366	-	366
Due from component units	-	172,888	172,888
Due from other governments	-	49,054	49,054
Total current assets	<u>44,586</u>	<u>255,451</u>	<u>300,037</u>
Noncurrent assets -			
Capital assets, net	<u>98,347</u>	<u>1,079,471</u>	<u>1,177,818</u>
Total assets	<u>142,933</u>	<u>1,334,922</u>	<u>1,477,855</u>
Liabilities			
Current liabilities:			
Accounts payable	1,021	257,043	258,064
Accrued liabilities	5,910	-	5,910
Due to other funds	13	960	973
Due to component unit	<u>-</u>	<u>493</u>	<u>493</u>
Total liabilities	<u>6,944</u>	<u>258,496</u>	<u>265,440</u>
Net assets			
Invested in capital assets	98,347	1,079,471	1,177,818
Unrestricted (deficit)	<u>37,642</u>	<u>(3,045)</u>	<u>34,597</u>
Total net assets	<u>\$ 135,989</u>	<u>\$ 1,076,426</u>	<u>\$ 1,212,415</u>

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenses And
Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2004

	City Market	Intermodal Transportation Center	Total
Operating revenue			
Charges for services	\$ 47,560	\$ 96,071	\$ 143,631
Other	-	5,490	5,490
	<hr/> 47,560	<hr/> 101,561	<hr/> 149,121
Operating expenses			
Operation and maintenance	30,653	132,155	162,808
Depreciation	3,960	29,079	33,039
	<hr/> 34,613	<hr/> 161,234	<hr/> 195,847
Operating income (loss)	12,947	(59,673)	(46,726)
Non-operating revenue (expenses)			
Interest income	(310)	2,465	2,155
	<hr/> (310)	<hr/> 2,465	<hr/> 2,155
Income (loss) before contributions and transfers	12,637	(57,208)	(44,571)
Capital contributions	-	209,514	209,514
Transfers from other funds	366	-	366
	<hr/> 366	<hr/> -	<hr/> 366
Increase in net assets	13,003	152,306	165,309
Net assets, beginning of year	122,986	924,120	1,047,106
Net assets, end of year	<hr/> \$ 135,989	<hr/> \$ 1,076,426	<hr/> \$ 1,212,415

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2004

	City Market	Intermodal Transportation Center	Total
Cash flows from operating activities			
Cash received from customers	\$ 39,519	\$ (51,151)	\$ (11,632)
Cash payments to suppliers for goods and services	(13,496)	51,098	37,602
Cash payments to employees for services	(12,523)	-	(12,523)
	<hr/>	<hr/>	<hr/>
Net cash (used) by operating activities	13,500	(53)	13,447
	<hr/>	<hr/>	<hr/>
Cash flows from non-capital financing activities			
Transfers in	366	-	366
	<hr/>	<hr/>	<hr/>
Cash flows from capital and related financing activities			
Purchases of capital assets	-	(209,514)	(209,514)
Capital contributions received	-	209,514	209,514
	<hr/>	<hr/>	<hr/>
Net cash used in capital and related financing activities	-	-	-
	<hr/>	<hr/>	<hr/>
Cash flows from investing activities			
Interest received	(310)	2,465	2,155
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	13,556	2,412	15,968
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	22,783	4,224	27,007
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 36,339	\$ 6,636	\$ 42,975
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating (loss)	\$ 12,947	\$ (59,673)	\$ (46,726)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	3,960	29,079	33,039
Changes in assets and liabilities:			
Receivables	(7,881)	5,309	(2,572)
Due from other funds	(160)	943	783
Due from component units	-	(122,338)	(122,338)
Due from other governments	-	(36,626)	(36,626)
Accounts payable	(1,225)	248,986	247,761
Accrued liabilities	5,846	-	5,846
Due to other funds	13	(59,094)	(59,081)
Due to component units	-	493	493
Deferred revenue	-	(7,132)	(7,132)
	<hr/>	<hr/>	<hr/>
Net cash (used) by operating activities	\$ 13,500	\$ (53)	\$ 13,447
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

INTERNAL SERVICE FUNDS

Intergovernmental Services Fund - This fund is used to account for operations of general auction services and abandoned vehicle auction services. Financing is provided by reimbursements from other operating funds and other governmental units on a cost reimbursement basis.

Engineering Fund - This fund is used to account for the operations of the City's Engineering Department. Financing is provided through user charges.

Printing Services Fund - This fund is used to record the operations of printing and mailing services. Financing is provided by reimbursements from the operating funds for materials and services rendered.

City-Wide Maintenance Fund - This fund is used to account for buildings and grounds maintenance operations for the City's various properties. User fees are charged to various funds and departments.

Management Information Systems Fund - This fund is used to record the operations of the management information systems department, which includes procurement and maintenance of equipment and computing support for informational needs of the City. Financing is provided by reimbursement from user service charges.

Public Works Equipment Fund - This fund is used to account for the procurement and maintenance of equipment to be used on various public work projects. Revenues are provided through vehicle and equipment rental charges and maintenance service billings. This fund also accounts for the administration and engineering of streets, storm sewers, parks and sidewalks. User funds and departments are billed to recover costs.

Insurance and Benefits Fund - This fund is used to account for payment of approved insurance claims, public liability, hospitalization insurance, workers' compensation, pension contributions, postemployment benefits, etc. The City is primarily self-insured and finances its insurance payments through budgeted transfers from other funds.

Public Utilities Equipment Fund - This fund is used to account for the procurement and maintenance of equipment to be used by the Wastewater and Water Departments. Revenues are provided through vehicle and equipment rental charges and maintenance service billings.

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Net Assets
Internal Service Funds
December 31, 2004

	Governmental			
	Inter- governmental services	Engineering	Printing Services	City-Wide Maintenance
Assets				
Current assets:				
Cash and cash equivalents	\$ -	\$ 53,002	\$ 1,775	\$ 17,575
Other receivables	-	6,103	-	4,079
Due from other funds	-	340,343	14,293	257,791
Due from component units	-	-	2,560	-
Inventories	-	-	22,389	-
Prepaid items and other assets	-	958	-	-
Total current assets	-	400,406	41,017	279,445
Noncurrent assets:				
Restricted cash	-	-	-	-
Capital assets	-	-	323	-
Total noncurrent assets	-	-	323	-
Total assets	-	400,406	41,340	279,445
Liabilities				
Current liabilities:				
Accounts payable	-	1,173	80,730	35,549
Accrued and other liabilities	-	40,064	1,992	17,005
Due to other funds	-	351,544	278	226,710
Due to component units	-	-	-	-
Deferred revenue	-	-	-	-
Current portion of long-term debt	-	-	-	-
Total current liabilities	-	392,781	83,000	279,264
Noncurrent liabilities:				
Compensated absences payable	-	-	2,019	-
Employee death benefits payable	-	-	-	-
Uninsured claim liability	-	-	-	-
Total noncurrent liabilities	-	-	2,019	-
Total liabilities	-	392,781	85,019	279,264
Net assets				
Invested in capital assets	-	-	323	-
Restricted for asset replacement	-	-	-	-
Unrestricted (deficit)	-	7,625	(44,002)	181
Total net assets	\$ -	\$ 7,625	\$ (43,679)	\$ 181

Activities				Business-type Activities	
Management Information Systems	Public Works Equipment	Insurance and Benefits	Sub-total Governmental Activities	Public Utilities Equipment	Total
\$ 1,548,891	\$ 23,390	\$ 1,006,724	\$ 2,651,357	\$ 186,001	\$ 2,837,358
3,104	50,329	5,467	69,082	-	69,082
81,894	303,258	6,503,215	7,500,794	181,980	7,682,774
3,647	754	735	7,696	959	8,655
-	154,151	-	176,540	25,933	202,473
225	-	-	1,183	-	1,183
1,637,761	531,882	7,516,141	10,406,652	394,873	10,801,525
-	-	128,714	128,714	824,627	953,341
212,559	1,818,977	-	2,031,859	1,347,920	3,379,779
212,559	1,818,977	128,714	2,160,573	2,172,547	4,333,120
1,850,320	2,350,859	7,644,855	12,567,225	2,567,420	15,134,645
62,230	753,113	15,796	948,591	78,592	1,027,183
21,463	41,806	137,642	259,972	4,858	264,830
1,527	141,637	1,614,108	2,335,804	18,904	2,354,708
-	-	134,276	134,276	-	134,276
17,600	-	-	17,600	-	17,600
-	-	1,380,904	1,380,904	4,503	1,385,407
102,820	936,556	3,282,726	5,077,147	106,857	5,184,004
39,240	71,043	-	112,302	31,514	143,816
-	-	252,583	252,583	-	252,583
-	-	2,343,334	2,343,334	-	2,343,334
39,240	71,043	2,595,917	2,708,219	31,514	2,739,733
142,060	1,007,599	5,878,643	7,785,366	138,371	7,923,737
212,559	1,818,977	-	2,031,859	1,347,920	3,379,779
-	-	-	-	1,750,363	1,750,363
1,495,701	(475,717)	1,766,212	2,750,000	(669,234)	2,080,766
\$ 1,708,260	\$ 1,343,260	\$ 1,766,212	\$ 4,781,859	\$ 2,429,049	\$ 7,210,908

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Internal Service Funds
December 31, 2004

	Governmental			
	Inter- governmental services	Engineering	Printing Services	City-Wide Maintenance
Operating revenue				
Charges for services	\$ -	\$ 1,600,253	\$ 157,741	\$ 1,268,489
Operating expenses				
Operation and maintenance	-	1,630,071	207,044	1,291,449
Risk management	-	-	-	-
Depreciation	-	-	647	-
Total operating expenses	-	1,630,071	207,691	1,291,449
Operating income (loss)	-	(29,818)	(49,950)	(22,960)
Non-operating revenue				
Interest income	-	-	-	-
Gain on sale of capital assets	-	-	-	-
Total non-operating revenue	-	-	-	-
Net income (loss) before transfers	-	(29,818)	(49,950)	(22,960)
Transfers				
Transfers in	-	29,786	3,459	22,961
Transfers out	-	-	-	-
Total transfers	-	29,786	3,459	22,961
Net income (loss)	-	(32)	(46,491)	1
Net assets, beginning of year	-	7,657	2,812	180
Net assets (deficit), end of year	\$ -	\$ 7,625	\$ (43,679)	\$ 181

Activities				Business-type Activities	
Management Information Systems	Public Works Equipment	Insurance and Benefits	Sub-total Governmental Activities	Public Utilities Equipment	Total
\$ 2,481,411	\$ 1,872,120	\$ 16,412,586	\$ 23,792,600	\$ 1,121,739	\$ 24,914,339
1,976,459	1,718,777	-	6,823,800	781,702	7,605,502
-	-	14,950,521	14,950,521	-	14,950,521
155,615	434,019	-	590,281	403,236	993,517
2,132,074	2,152,796	14,950,521	22,364,602	1,184,938	23,549,540
349,337	(280,676)	1,462,065	1,427,998	(63,199)	1,364,799
-	147	86,489	86,636	12,931	99,567
-	17,410	-	17,410	13,723	31,133
-	17,557	86,489	104,046	26,654	130,700
349,337	(263,119)	1,548,554	1,532,044	(36,545)	1,495,499
15,528	28,570	-	100,304	6,597	106,901
-	-	(1,264,498)	(1,264,498)	-	(1,264,498)
15,528	28,570	(1,264,498)	(1,164,194)	6,597	(1,157,597)
364,865	(234,549)	284,056	367,850	(29,948)	337,902
1,343,395	1,577,809	1,482,156	4,414,009	2,458,997	6,873,006
\$ 1,708,260	\$ 1,343,260	\$ 1,766,212	\$ 4,781,859	\$ 2,429,049	\$ 7,210,908

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended December 31, 2004

	Governmental			
	Inter- governmental services	Engineering	Printing Services	City-Wide Maintenance
Cash flows from operating activities				
Cash received from providing interfund services	\$ -	\$ 1,518,188	\$ 180,377	\$ 1,273,227
Cash payments to suppliers for goods and services	(588)	(608,452)	(139,863)	(791,368)
Cash payments to employees for services	-	(888,577)	(44,403)	(491,870)
Net cash provided by (used in) operating activities	(588)	21,159	(3,889)	(10,011)
Cash flows from non-capital financing activities				
Transfers in	-	29,786	3,459	22,961
Transfers out	-	-	-	-
Net cash provided by (used in) non-capital financing activities	-	29,786	3,459	22,961
Cash flows from capital and related financing activities				
Purchases of capital assets	-	-	-	-
Sale of capital assets	-	-	-	-
Net cash provided by (used in) capital and related financing activities	-	-	-	-
Cash flows from investing activities				
Interest received	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(588)	50,945	(430)	12,950
Cash and cash equivalents, beginning of year	588	2,057	2,205	4,625
Cash and cash equivalents, end of year	\$ -	\$ 53,002	\$ 1,775	\$ 17,575
Balance sheet classification of cash and cash equivalents				
Cash and cash equivalents	\$ -	\$ 53,002	\$ 1,775	\$ 17,575
Restricted cash	-	-	-	-
Total cash and cash equivalents	\$ -	\$ 53,002	\$ 1,775	\$ 17,575

Activities				Business-type Activities	
Management Information Systems	Public Works Equipment	Insurance and Benefits	Sub-total Governmental Activities	Public Utilities Equipment	Total
\$ 2,554,352	\$ 2,023,921	\$ 10,389,187	\$ 17,939,252	\$ 1,063,281	\$ 19,002,533
(1,425,124)	(1,047,821)	(14,692,207)	(18,705,423)	(675,349)	(19,380,772)
(532,613)	(796,454)	-	(2,753,917)	(198,428)	(2,952,345)
596,615	179,646	(4,303,020)	(3,520,088)	189,504	(3,330,584)
15,528	28,570	-	100,304	6,597	106,901
-	-	(1,264,498)	(1,264,498)	-	(1,264,498)
15,528	28,570	(1,264,498)	(1,164,194)	6,597	(1,157,597)
-	(213,020)	-	(213,020)	(148,892)	(361,912)
5,750	20,182	-	25,932	13,723	39,655
5,750	(192,838)	-	(187,088)	(135,169)	(322,257)
-	147	86,489	86,636	12,931	99,567
617,893	15,525	(5,481,029)	(4,784,734)	73,863	(4,710,871)
930,998	7,865	6,616,467	7,564,805	936,765	8,501,570
\$ 1,548,891	\$ 23,390	\$ 1,135,438	\$ 2,780,071	\$ 1,010,628	\$ 3,790,699
\$ 1,548,891	\$ 23,390	\$ 1,006,724	\$ 2,651,357	\$ 186,001	\$ 2,837,358
-	-	128,714	128,714	824,627	953,341
\$ 1,548,891	\$ 23,390	\$ 1,135,438	\$ 2,780,071	\$ 1,010,628	\$ 3,790,699

(Continued...)

CITY OF KALAMAZOO, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds (Concluded)
For the Year Ended December 31, 2004

	Governmental			
	Inter- governmental services	Engineering	Printing Services	City-Wide Maintenance
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ -	\$ (29,818)	\$ (49,950)	\$ (22,960)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	-	-	647	-
Changes in assets and liabilities:				
Receivables	-	9,210	6,639	3,268
Due from other funds	-	(91,275)	15,745	1,470
Due from component units	-	-	252	-
Inventories	-	-	(7,361)	-
Prepaid items and other assets	-	(608)	-	875
Accounts payable	(588)	(1,110)	77,242	6,533
Accrued and other liabilities	-	12,994	(10)	8,201
Due to other funds	-	121,766	(46,766)	(7,398)
Due to component units	-	-	-	-
Compensated absences payable	-	-	(327)	-
Employee death benefits payable	-	-	-	-
Uninsured claim liability	-	-	-	-
Net cash provided by (used in) operating activities	\$ (588)	\$ 21,159	\$ (3,889)	\$ (10,011)

Activities				Business-type Activities	
Management Information Systems	Public Works Equipment	Insurance and Benefits	Sub-total Governmental Activities	Public Utilities Equipment	Total
\$ 349,337	\$ (280,676)	\$ 1,462,065	\$ 1,427,998	\$ (63,199)	\$ 1,364,799
155,615	434,019	-	590,281	403,236	993,517
(1,476)	22,056	253,965	293,662	-	293,662
65,868	125,657	(6,325,711)	(6,208,246)	(68,432)	(6,276,678)
8,549	4,088	48,347	61,236	9,974	71,210
-	(5,121)	-	(12,482)	(1,987)	(14,469)
-	4,369	-	4,636	-	4,636
7,286	717,069	(12,183)	794,249	(76,394)	717,855
8,183	12,468	(35,304)	6,532	1,857	8,389
1,492	(863,540)	1,256,364	461,918	(17,667)	444,251
-	-	134,276	134,276	-	134,276
1,761	9,257	-	10,691	2,116	12,807
-	-	(342)	(342)	-	(342)
-	-	(1,084,497)	(1,084,497)	-	(1,084,497)
\$ 596,615	\$ 179,646	\$ (4,303,020)	\$ (3,520,088)	\$ 189,504	\$ (3,330,584)

AGENCY FUND

Tax Collector's Fund - This fund is used to account for tax collections which are held by the City in an agency capacity. The collections are then transferred to the City General Fund and to other governmental units on a timely distribution basis.

CITY OF KALAMAZOO, MICHIGAN
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended December 31, 2004

	Balance December 31, 2003		Additions	Deletions	Balance December 31, 2004	
<u>TAX COLLECTOR'S</u>						
Assets						
Cash and cash equivalents	\$	4,875,205	\$ 63,988,929	\$ 67,307,046	\$	1,557,088
Taxes receivable		39,684,608	58,556,918	62,266,107		35,975,419
Other receivables		10,839	3,495,487	15,156		3,491,170
<hr/>						
Total assets	\$	44,570,652	\$ 126,041,334	\$ 129,588,309	\$	41,023,677
<hr/>						
Liabilities						
Accounts payable	\$	1,839,766	\$ 72,238,893	\$ 71,952,113	\$	2,126,546
Due to other governments		42,730,886	53,802,441	57,636,196		38,897,131
<hr/>						
Total liabilities	\$	44,570,652	\$ 126,041,334	\$ 129,588,309	\$	41,023,677
<hr/>						

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Downtown Development Authority Component Unit
December 31, 2004

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 180,130	\$ -	\$ 180,130
Receivables, net:			
Taxes	3,012,119	-	3,012,119
Other	229,654	80,501	310,155
Due from primary government	26,447	-	26,447
Prepays	120,066	-	120,066
Restricted cash	1,670,081	-	1,670,081
Capital assets, net	-	425,187	425,187
	<hr/>	<hr/>	<hr/>
Total assets	\$ 5,238,497	505,688	5,744,185
	<hr/>	<hr/>	<hr/>
Liabilities			
Accounts payable	\$ 314,608	-	314,608
Accrued liabilities	-	43,196	43,196
Due to primary government	-	6,345,000	6,345,000
Deferred revenue	119,835	-	119,835
Long-term liabilities:			
Due within one year	-	207,785	207,785
Due in more than one year	-	884,940	884,940
	<hr/>	<hr/>	<hr/>
Total liabilities	434,443	7,480,921	7,915,364
	<hr/>	<hr/>	<hr/>
Fund balance / net assets			
Fund balance:			
Reserved for prepaids	120,066	(120,066)	-
Unreserved, undesignated	4,683,988	(4,683,988)	-
	<hr/>	<hr/>	<hr/>
Total fund balance	4,804,054	(4,804,054)	-
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 5,238,497		
	<hr/>		
Net assets:			
Invested in capital assets, net of related debt		414,671	414,671
Unrestricted (deficit)		(2,585,850)	(2,585,850)
		<hr/>	<hr/>
Total net assets		\$ (2,171,179)	\$ (2,171,179)
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Downtown Development Authority Component Unit
December 31, 2004

Fund balance - governmental fund	\$ 4,804,054
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and therefore not reported in the governmental fund.

Add: capital assets, net	930,516
Subtract: accumulated depreciation	(505,329)

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred property taxes	80,501
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental fund.

Subtract: long-term debt payable	(1,092,725)
Subtract: accrued interest on long-term debt	(43,196)
Subtract: long-term due to primary government	<u>(6,345,000)</u>

Net assets (deficit)	<u><u>\$ (2,171,179)</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended December 31, 2004

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 6,081,616	\$ (564,751)	\$ 5,516,865
Program revenues			
Charges for services	2,280,998	-	2,280,998
Operating grants, contributions, and restricted interest	255,762	-	255,762
Capital grants and contributions	104,269	-	104,269
Total program revenues	2,641,029	-	2,641,029
Net program (expense) revenue	(3,440,587)	564,751	(2,875,836)
General revenues			
Property taxes	3,626,460	(216,478)	3,409,982
Bond proceeds	665,000	(665,000)	-
Total general revenues	4,291,460	(881,478)	3,409,982
Change in fund balance / net assets	850,873	(316,727)	534,146
Fund balances / net assets (deficit):			
Beginning of year	3,953,181	(6,658,506)	(2,705,325)
End of year	\$ 4,804,054	\$ (6,975,233)	\$ (2,171,179)

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances to Changes in Net Assets
Downtown Development Authority Component Unit
For the Year Ended December 31, 2004

Net change in fund balance - governmental fund	\$	850,873
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Amounts reported in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Subtract: depreciation expense		(95,517)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in property tax revenues		(216,478)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		632,967
Subtract: bond proceeds received		(665,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund.

Subtract: change in accrued interest		27,301
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Change in net assets	\$	534,146
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Economic Development Corporation Component Unit
December 31, 2004

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 200,596	\$ -	\$ 200,596
Notes receivable	1,181,519	-	1,181,519
Due from primary government	37,589	-	37,589
	<hr/>		<hr/>
Total assets	<u>\$ 1,419,704</u>	-	1,419,704
Liabilities			
Accrued liabilities	\$ 3,712	-	3,712
Due to primary government	9,901	-	9,901
Advance from primary government	1,106,519	-	1,106,519
Deferred revenue	75,000	(75,000)	-
	<hr/>		<hr/>
Total liabilities	1,195,132	(75,000)	1,120,132
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	224,572	(224,572)	-
	<hr/>		<hr/>
Total liabilities and fund balance	<u>\$ 1,419,704</u>	(299,572)	1,120,132
Net assets			
Unrestricted		<u>\$ 299,572</u>	<u>\$ 299,572</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Economic Development Corporation Component Unit
December 31, 2004

Fund balance - governmental fund	\$ 224,572
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Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	<u>75,000</u>
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Net assets	<u><u>\$ 299,572</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Economic Development Corporation Component Unit
For the Year Ended December 31, 2004

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 110,081	\$ (25,000)	\$ 85,081
Program revenues			
Charges for services	13,810	-	13,810
Operating grants, contributions, and restricted interest	234,062	-	234,062
Total program revenues	247,872	-	247,872
Net (expense) revenue	137,791	25,000	162,791
General revenues			
Grants and contributions not restricted to specific programs	4,089	-	4,089
Change in fund balance / net assets	141,880	25,000	166,880
Fund balances / net assets:			
Beginning of year	82,692	50,000	132,692
End of year	\$ 224,572	\$ 75,000	\$ 299,572

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balances to Changes in Net Assets
Economic Development Corporation Component Unit
For the Year Ended December 31, 2004

Net change in fund balance - governmental fund	\$ 141,880
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Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable	<u>25,000</u>
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Change in net assets	<u><u>\$ 166,880</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Brownfield Redevelopment Authority Component Unit
December 31, 2004

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 1,604,295	\$ -	\$ 1,604,295
Receivables, net:			
Notes	603,392	-	603,392
Due from other governments	69,044	-	69,044
Due from primary government	119	-	119
Other	125,147	2,626	127,773
	<hr/>		<hr/>
Total assets	\$ 2,401,997	2,626	2,404,623
	<hr/>		<hr/>
Liabilities			
Account payable	\$ 89,865	-	89,865
Accrued liabilities	6,623	-	6,623
Due to primary government	89	-	89
Advance from primary government	603,392	-	603,392
Deferred revenue	320,561	(27,002)	293,559
	<hr/>		<hr/>
Total liabilities	1,020,530	(27,002)	993,528
	<hr/>		<hr/>
Fund balance / net assets			
Fund balance:			
Reserved for encumbrances	-	-	-
Unreserved, undesignated	1,381,467	(1,381,467)	-
	<hr/>		<hr/>
Total fund balance	1,381,467	(1,381,467)	-
	<hr/>		<hr/>
Total liabilities and fund balance	\$ 2,401,997		
	<hr/>		
Net assets			
Unrestricted		\$ 1,411,095	\$ 1,411,095
		<hr/>	<hr/>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Brownfield Redevelopment Authority Component Unit
December 31, 2004

Fund balance - governmental fund	\$ 1,381,467
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Amounts reported in the statement of net assets are different because:

Because the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental fund, and thus are not included in fund balance.

Add: deferred notes receivable	27,002
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>2,626</u>
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Net assets	<u><u>\$ 1,411,095</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Brownfield Redevelopment Authority Component Unit
For the Year Ended December 31, 2004

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 1,843,375	\$ (2,626)	\$ 1,840,749
Program revenues			
Operating grants, contributions, and restricted interest	1,151,662	-	1,151,662
Net (expense) revenue	(691,713)	2,626	(689,087)
General revenues			
Property taxes	204,057	7,557	211,614
Proceeds / gain from the sale of capital assets	89,241	-	89,241
Total general revenues	293,298	7,557	300,855
Change in net assets	(398,415)	10,183	(388,232)
Fund balances / net assets:			
Beginning of year	1,779,882	19,445	1,799,327
End of year	<u>\$ 1,381,467</u>	<u>\$ 29,628</u>	<u>\$ 1,411,095</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balance to Changes in Net Assets
Brownfield Redevelopment Authority Component Unit
For the Year Ended December 31, 2004

Net change in fund balance - governmental fund	\$ (398,415)
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Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable	7,557
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>2,626</u>
---	--------------

Change in net assets	<u><u>\$ (388,232)</u></u>
----------------------	----------------------------

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets / Governmental Fund Balance Sheet
Local Development Finance Authority Component Unit
December 31, 2004

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 5,729	\$ -	\$ 5,729
Taxes receivable	174,818	-	174,818
Due from primary government	94	133	227
	<hr/>		<hr/>
Total assets	<u>\$ 180,641</u>	133	180,774
Liabilities			
Accounts payable and accrued liabilities	\$ 25,000	-	25,000
Due to primary government	89,984	-	89,984
Advance from primary government	1,938,143	-	1,938,143
Deferred revenue	1,976	(1,976)	-
	<hr/>		<hr/>
Total liabilities	2,055,103	(1,976)	2,053,127
Fund balance / net assets			
Fund balance:			
Unreserved, undesignated	(1,874,462)	1,874,462	-
	<hr/>		<hr/>
Total liabilities and fund balance	<u>\$ 180,641</u>		
Net assets			
Unrestricted (deficit)		<u>\$ (1,872,353)</u>	<u>\$ (1,872,353)</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Balance of the
Governmental Fund to Net Assets
Local Development Finance Authority Component Unit
December 31, 2004

Fund balance - governmental fund	\$ (1,874,462)
----------------------------------	----------------

Amounts reported in the statement of net assets are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in property tax revenues	1,976
--	-------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net assets of certain internal service funds are allocated to the Authority and included in the statement of net assets.

Add: net assets allocated to the Authority from governmental activity internal service funds	<u>133</u>
--	------------

Net assets (deficit)	<u><u>\$ (1,872,353)</u></u>
----------------------	------------------------------

CITY OF KALAMAZOO, MICHIGAN
Statement of Activities / Governmental Fund Revenue,
Expenditures, and Changes in Fund Balance
Local Development Finance Authority Component Unit
For the Year Ended December 31, 2004

	General Fund	Adjustments	Statement of Activities
Expenditures / expenses	\$ 813,295	\$ (1)	\$ 813,294
Program revenues			
Operating grants, contributions, and restricted interest	284,680	-	284,680
Net (expense) revenue	(528,615)	1	(528,614)
General revenues			
Property taxes	417,374	(762)	416,612
Change in net assets	(111,241)	(761)	(112,002)
Fund balances / net assets:			
Beginning of year	(1,763,221)	2,870	(1,760,351)
End of year	<u>\$ (1,874,462)</u>	<u>\$ 2,109</u>	<u>\$ (1,872,353)</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Governmental Fund Revenue, Expenditures
and Changes in Fund Balance to Changes in Net Assets
Local Development Finance Authority Component Unit
For the Year Ended December 31, 2004

Net change in fund balance - governmental fund	\$ (111,241)
--	--------------

Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund, but rather are deferred to the following fiscal year.

Add: net change in notes receivable	(762)
-------------------------------------	-------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the Authority and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds

	1
	<hr/>
Change in net assets	<u><u>\$ (112,002)</u></u>

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets
Metro Transit System Component Unit
December 31, 2004

	Enterprise Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Cash and cash equivalents	\$ 503,863	\$ -	\$ 503,863
Receivables, net	1,912,974	355,407	2,268,381
Other assets	229,005	-	229,005
Total current assets	<u>2,645,842</u>	<u>355,407</u>	<u>3,001,249</u>
Non-current assets:			
Restricted investments	1,145,145	-	1,145,145
Capital assets, net	9,315,824	-	9,315,824
Total non-current assets	<u>10,460,969</u>	<u>-</u>	<u>10,460,969</u>
Total assets	<u>13,106,811</u>	<u>355,407</u>	<u>13,462,218</u>
Liabilities			
Current liabilities:			
Account payable and accrued liabilities	656,811	-	656,811
Deferred revenue	176,860	-	176,860
Current portion of long-term debt	6,118	-	6,118
Total current liabilities	<u>839,789</u>	<u>-</u>	<u>839,789</u>
Long-term liabilities:			
Due in more than one year	160,889	-	160,889
Total liabilities	<u>1,000,678</u>	<u>-</u>	<u>1,000,678</u>
Net assets			
Invested in capital assets	9,315,824	-	9,315,824
Unrestricted	2,790,309	355,407	3,145,716
Total net assets	<u>\$ 12,106,133</u>	<u>\$ 355,407</u>	<u>\$ 12,461,540</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Fund Net Assets of the
Enterprise Fund to Net Assets
Metro Transit System Component Unit
December 31, 2004

Fund net assets	\$ 12,106,133
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Amounts reported in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	<u>355,407</u>
---	----------------

Net assets	<u><u>\$ 12,461,540</u></u>
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CITY OF KALAMAZOO, MICHIGAN
Statement of Activities and Enterprise Fund Revenue,
Expenses, and Changes in Fund Net Assets
Metro Transit System Component Unit
For the Year Ended December 31, 2004

	Enterprise Fund	Adjustments	Statement of Activities
Expenses	\$ 11,108,057	\$ (165,567)	\$ 10,942,490
Program revenues			
Charges for services	1,203,911	-	1,203,911
Operating grants, contributions, and restricted interest	6,781,443	-	6,781,443
Capital grants and contributions	858,726	-	858,726
Total program revenues	8,844,080	-	8,844,080
Net (expense) revenue	(2,263,977)	165,567	(2,098,410)
General revenues			
Property taxes	1,460,640	-	1,460,640
Gain on sale of capital assets	1,285	-	1,285
Total general revenues	1,461,925	-	1,461,925
Change in net assets	(802,052)	165,567	(636,485)
Net assets, beginning of year	12,908,185	189,840	13,098,025
Net assets, end of year	<u>\$ 12,106,133</u>	<u>\$ 355,407</u>	<u>\$ 12,461,540</u>

CITY OF KALAMAZOO, MICHIGAN
Reconciliation of Enterprise Fund Revenue, Expenses
and Changes in Fund Net Assets to the Statement of Activities
Metro Transit System Component Unit
For the Year Ended December 31, 2004

Net change in fund balance - governmental fund	\$ (802,052)
--	--------------

Amounts reported in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net revenue (expense) of certain internal service funds is allocated to the System and reported in the statement of activities.

Add: net operating gain from component unit activities accounted for in governmental internal service funds	165,567
---	---------

Change in net assets	\$ (636,485)
----------------------	--------------

CITY OF KALAMAZOO, MICHIGAN
Statement of Net Assets
Kalamazoo Municipal Golf Association Component Unit
December 31, 2004

	Enterprise Fund	Adjustments	Statement of Net Assets
Assets			
Current assets:			
Cash and cash equivalents	\$ 176,935	\$ -	\$ 176,935
Due from primary government	2,229	-	2,229
Prepays	11,383	-	11,383
Total current assets	<u>190,547</u>	-	<u>190,547</u>
Non-current assets:			
Deferred bond costs	38,338	-	38,338
Capital assets, net	1,629,968	-	1,629,968
Total non-current assets	<u>1,668,306</u>	-	<u>1,668,306</u>
Total assets	<u>1,858,853</u>	-	<u>1,858,853</u>
Liabilities			
Current liabilities:			
Account payable and accrued liabilities	27,324	-	27,324
Due to primary government	1,423,054	-	1,423,054
Deferred revenue	171,132	-	171,132
Current portion of long-term debt	8,421	-	8,421
Total current liabilities	<u>1,629,931</u>	-	<u>1,629,931</u>
Long-term liabilities:			
Due in more than one year	<u>3,631</u>	-	<u>3,631</u>
Total liabilities	<u>1,633,562</u>	-	<u>1,633,562</u>
Net assets			
Invested in capital assets, net of related debt	194,862	-	194,862
Unrestricted	<u>30,429</u>	-	<u>30,429</u>
Total net assets	<u>\$ 225,291</u>	<u>\$ -</u>	<u>\$ 225,291</u>

CITY OF KALAMAZOO, MICHIGAN
Statement of Activities
Kalamazoo Municipal Golf Association Component Unit
For the Year Ended December 31, 2004

	Enterprise Fund	Adjustments	Statement of Activities
Expenses	\$ 1,051,686	\$ -	\$ 1,051,686
Program revenues			
Charges for services	1,404,344	-	1,404,344
Change in net assets	353,686	-	353,686
Net assets (deficit), beginning of year	(128,395)	-	(128,395)
Net assets, end of year	<u>\$ 225,291</u>	<u>\$ -</u>	<u>\$ 225,291</u>

CITY OF KALAMAZOO, MICHIGAN

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CITY OF KALAMAZOO, MICHIGAN

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CITY OF KALAMAZOO, MICHIGAN
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION (A)
LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Public Services	Development Services	(B) District Court	Capital Outlay	(C) Debt Service	Other	Total Expenditures
1995	\$ 5,449,078	\$ 23,089,075	\$ 10,700,201	\$ 4,664,018	\$ 2,073,524	\$ 1,560,362	\$ 1,152,728	\$ 481,409	\$ 49,170,395
1996	5,514,304	23,255,486	10,650,871	4,585,128	2,046,843	6,542,132	1,222,599	503,608	54,320,971
1997	5,495,118	24,644,329	11,559,149	5,039,284	2,138,563	3,144,939	1,530,673	922,480	54,474,535
1998	5,690,572	24,724,484	11,098,218	3,798,725	2,244,301	4,175,792	151,379	667,496	52,550,967
1999	6,179,274	25,342,917	8,775,659	7,104,583	-	4,618,759	161,113	1,214,078	53,396,383
2000	6,390,530	26,685,740	8,978,681	7,073,702	-	5,058,975	205,993	1,165,255	55,558,876
2001	7,044,824	27,808,153	9,095,480	7,264,516	-	3,502,548	182,330	1,276,065	56,173,916
2002	6,562,518	29,570,677	7,331,755	8,392,856	-	3,218,030	106,789	2,966,663	58,149,288
2003	6,584,601	30,164,961	6,929,901	8,929,614	-	2,244,148	88,575	2,615,574	57,557,374
2004	6,582,845	31,422,767	7,475,792	11,739,865	-	3,367,124	89,957	2,707,311	63,385,661
									% Increase (Decrease) Over Prior Year
Fiscal Year	Percent of Total Expenditure:								
1995	11.0%	47.0%	21.8%	9.5%	4.2%	3.2%	2.3%	1.0%	1.1%
1996	10.2%	42.8%	19.6%	8.4%	3.8%	12.0%	2.3%	0.9%	10.5%
1997	10.1%	45.2%	21.2%	9.3%	3.9%	5.8%	2.8%	1.7%	0.3%
1998	10.9%	47.0%	21.1%	7.2%	4.3%	7.9%	0.3%	1.3%	-3.5%
1999	11.6%	47.5%	16.4%	13.3%	0.0%	8.6%	0.3%	2.3%	1.6%
2000	11.5%	48.0%	16.2%	12.7%	0.0%	9.1%	0.4%	2.1%	4.0%
2001	12.6%	49.5%	16.2%	12.9%	0.0%	6.2%	0.3%	2.3%	1.1%
2002	11.3%	50.9%	12.6%	14.4%	0.0%	5.5%	0.2%	5.1%	3.5%
2003	11.5%	52.4%	12.0%	15.5%	0.0%	3.9%	0.2%	4.5%	-1.0%
2004	10.4%	49.6%	11.8%	18.5%	0.0%	5.3%	0.1%	4.3%	10.1%

(A) Includes general and special revenue funds as presented on the budgetary basis of accounting; interfund transfers are not included.

Prior to 1997, expenditures related to the Arcadia Creek capital project were included in the Downtown Development Special Revenue Fund. In 1997, this fund was changed to a capital projects fund and, accordingly, excluded from this schedule.

(B) In 1999, District Court operations were transferred to Kalamazoo County.

(C) The years 1995 through 1997 include debt service on Michigan Transportation Fund (MTF) bonds. Beginning in 1998, MTF debt service is handled through a transfer and, accordingly, excluded from this schedule.

CITY OF KALAMAZOO, MICHIGAN
GENERAL GOVERNMENTAL REVENUES BY SOURCE (A)
LAST TEN FISCAL YEARS

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	(B) Fines and Forfeitures	Interest and Rent	Other	Totals
1994	\$22,176,126	\$ 942,805	\$ 19,013,377	\$ 476,746	\$ 1,563,399	\$ 931,018	\$ 2,980,450	\$ 48,083,921
1995	23,060,496	774,558	19,878,938	994,673	1,719,706	1,340,967	2,941,896	50,711,234
1996	24,141,435	1,049,903	20,698,497	1,162,969	2,073,905	1,389,574	3,149,644	53,665,927
1997	25,294,227	699,289	21,268,187	1,215,090	2,253,408	1,316,969	4,268,952	56,316,122
1998	26,124,804	811,061	22,074,088	1,066,513	2,421,031	1,417,280	3,263,995	57,178,772
1999	27,018,531	920,802	21,248,010	1,088,308	246,545	1,293,306	3,589,063	55,404,565
2000	27,551,448	1,086,054	23,235,368	1,087,283	236,143	1,497,900	3,349,198	58,043,394
2001	28,624,144	1,226,681	22,764,398	1,201,106	430,846	994,911	3,511,314	58,753,400
2002	29,877,354	1,479,478	23,094,196	1,179,448	253,224	806,908	3,779,537	60,470,145
2003	30,868,032	1,797,319	20,908,408	981,650	220,918	563,526	4,641,196	59,981,049
2004	31,620,372	1,972,128	22,246,771	1,487,928	313,457	749,871	4,627,851	63,018,378

Fiscal Year	Percent of Total Revenues							% Increase (Decrease) Over Prior Year
1995	45.5%	1.5%	39.2%	2.0%	3.4%	2.6%	5.8%	5.5%
1996	44.8%	2.0%	38.6%	2.2%	3.9%	2.6%	5.9%	5.8%
1997	44.9%	1.2%	37.8%	2.2%	4.0%	2.3%	7.6%	4.9%
1998	45.7%	1.4%	38.6%	1.9%	4.2%	2.5%	5.7%	1.5%
1999	48.7%	1.7%	38.4%	2.0%	0.4%	2.3%	6.5%	-3.1%
2000	47.4%	1.9%	40.0%	1.9%	0.4%	2.6%	5.8%	4.8%
2001	48.8%	2.1%	38.7%	2.0%	0.7%	1.7%	6.0%	1.2%
2002	49.4%	2.4%	38.2%	2.0%	0.4%	1.3%	6.3%	2.9%
2003	51.5%	3.0%	34.9%	1.6%	0.4%	0.9%	7.7%	-0.8%
2004	50.2%	3.1%	35.3%	2.4%	0.5%	1.2%	7.3%	5.1%

(A) Includes General and Special Revenue Funds as presented on the budgetary basis of accounting. Bond proceeds, note proceeds and interfund transfers are not recognized.

Beginning in 1997, tax collection fees are reported as Miscellaneous rather than Licenses, Permits and Fees.

Prior to 1997, bond proceeds for capital improvements related to the Arcadia Creek project were included in the Special Revenue Fund "Downtown Development". In 1997, this fund was changed to a Capital Projects Fund, and not included on this schedule.

(B) In 1999 District Court operations were transferred to the County of Kalamazoo. From 1999, this column represents miscellaneous City fines and drug forfeiture revenue.

CITY OF KALAMAZOO, MICHIGAN

PROPERTY TAX LEVIES AND COLLECTIONS
GENERAL PROPERTY TAX

LAST TEN FISCAL YEARS

Year	(A) Total Adjusted Tax Levy	Collection of Current Year's Taxes During Year Levied	Percent of Levy Collected During Year Levied	(B) Collection Subsequent to the Year of Tax Levy	Total Collections	Percent of Total Collections to Tax Levy	(C) Uncollected Taxes	Percent of Uncollected Taxes to Tax Levy
1995	\$21,317,227	\$ 18,550,672	87.02%	\$ 2,763,607	\$ 21,314,279	99.99%	\$ 2,948	0.01%
1996	22,055,902	19,577,440	88.76%	2,469,318	22,046,758	99.96%	9,143	0.04%
1997	23,490,496	20,357,523	86.66%	3,094,952	23,452,475	99.84%	38,020	0.16%
1998	24,043,329	20,944,734	87.11%	3,061,107	24,005,841	99.84%	37,488	0.16%
1999	24,960,938	22,061,411	88.38%	2,820,909	24,882,320	99.69%	78,618	0.31%
2000	25,571,515	22,249,362	87.01%	3,069,738	25,319,100	99.01%	252,415	0.99%
2001	26,133,835	22,719,024	86.93%	3,119,128	25,838,151	98.87%	295,683	1.13%
2002	27,430,704	24,051,078	87.68%	2,901,510	26,952,588	98.26%	478,116	1.74%
2003	28,440,458	24,665,670	86.73%	2,878,428	27,544,098	96.85%	896,360	3.15%
2004	29,124,893	25,195,702	86.51%	-	25,195,702	86.51%	3,929,191	13.49%

(A) Reflects general operating levy only, whereas General Fund property tax revenues in the general purpose financial statements include the general levy, payments in lieu of taxes and special assessments. All total tax levies reflect adjustments for Tax Tribunal consent judgements, Board of Review decisions, real estate taxes cancelled through foreclosure and state scavenger sales, and personal property taxes cancelled by Circuit Court.

(B) Reflects collections through December 31, 2004

(C) Uncollected current year taxes at December 31, 2004 represent both delinquent taxes and unpaid monthly installments on the current levy.

CITY OF KALAMAZOO, MICHIGAN

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (A)

LAST TEN FISCAL YEARS

Year	Real		Personal		Industrial and Commercial Subject to Act 198	
	Assessed/ Taxable Value (B)	Estimated Actual Value	Assessed/ Taxable Value (B)	Estimated Actual Value	Assessed/ Taxable Value (B)	Estimated Actual Value
1995	\$ 855,534,110	\$ 1,711,068,220	\$ 175,746,100	\$ 351,492,200	\$ 73,382,700	\$ 270,018,600
1996	885,228,452	1,770,456,904	193,060,300	386,120,600	64,523,400	240,130,800
1997	935,384,020	1,870,768,040	233,108,300	466,216,600	48,893,850	187,226,400
1998	975,989,650	1,951,979,300	227,662,700	455,325,400	46,185,125	178,574,100
1999	1,016,391,380	2,032,782,760	237,632,548	475,265,096	43,084,950	165,233,400
2000	1,034,261,518	2,379,780,256	229,137,050	458,320,700	32,650,000	126,779,800
2001	1,090,113,040	2,475,865,910	238,143,600	476,329,800	32,089,500	124,129,200
2002	1,175,434,380	2,687,356,660	238,009,950	476,030,100	15,096,550	56,133,600
2003	1,213,441,494	2,843,897,560	244,276,534	488,613,068	35,442,050	71,700,100
2004	1,274,216,408	3,031,577,100	219,353,550	440,012,900	36,821,197	74,593,600

(A) Assessed values include adjustments to the final adopted assessment roll for the Tax Tribunal Consent Judgments, Board of Review decisions and other adjustments affecting the assessment roll or the tax levy as of December 31, 2004. These values do not reflect adjustments for real estate taxes cancelled through foreclosure and state scavenger sales, or personal property taxes cancelled by the Circuit Court. These adjustments decreased the 2004 roll by \$817,198.

(B) Beginning with 1995, all figures are based on taxable value. Assessed values are still calculated based on 50% of market value. However, Proposal A limits the increase of the taxable value to 5% or the C.P.I., whichever is lower.

Note: State statute requires all taxable property to be assessed at 50% of market value, except certain facilities which are granted exemption certificates under Act 198, Public Acts of Michigan. This Act was designed to provide a stimulus in the form of tax incentives to industrial and commercial enterprises to renovate and expand aging facilities and to build new facilities.

Table 4 - Unaudited

Totals		Ratio of	%
Assessed/ Taxable Value (B)	Estimated Actual Value	Total Assessed to Total Estimated Actual Value	Increase in Estimated Actual Value Over Prior Year
\$ 1,104,662,910	\$ 2,332,579,020	47.4%	2.5%
1,142,812,152	2,396,708,304	47.7%	2.7%
1,217,386,170	2,524,211,040	48.2%	5.3%
1,249,837,475	2,585,878,800	48.3%	2.4%
1,297,108,878	2,673,281,256	48.5%	3.4%
1,296,048,568	2,964,880,756	43.7%	10.9%
1,360,346,140	3,076,324,910	44.2%	3.8%
1,428,540,880	3,219,520,360	44.4%	4.7%
1,493,160,078	3,404,210,728	43.9%	5.7%
1,530,391,155	3,546,183,600	43.2%	4.2%

CITY OF KALAMAZOO, MICHIGAN
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS

<u>Governmental Unit</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Homestead (1)</u>					
City of Kalamazoo	\$21.5667	\$21.5667	\$21.9205	\$21.9205	\$22.1405
County of Kalamazoo	6.1400	6.1400	6.1362	6.1362	6.1362
State of Michigan	6.0000	6.0000	6.0000	5.0000	6.0000
Kalamazoo Public Schools(2)	3.0500	4.0800	4.2000	4.2000	4.2000
Kalamazoo Valley Intermediate School District	3.0416	3.0416	3.0416	3.0416	3.0416
Kalamazoo Valley Community College	2.8151	2.8151	2.8139	2.8139	2.8135
Kalamazoo District Library	3.9583	3.9583	3.9583	3.9583	3.9583
Total (3)	<u>\$46.5717</u>	<u>\$47.6017</u>	<u>\$48.0705</u>	<u>\$47.0705</u>	<u>\$48.2901</u>
<u>Non-Homestead (1)</u>					
City of Kalamazoo	\$21.5667	\$21.5667	\$21.9205	\$21.9205	\$22.1405
County of Kalamazoo	6.1400	6.1400	6.1362	6.1362	6.1362
State of Michigan	6.0000	6.0000	6.0000	5.0000	6.0000
Kalamazoo Public Schools(2)	21.0500	22.0800	22.2000	22.2000	22.2000
Kalamazoo Valley Intermediate School District	3.0416	3.0416	3.0416	3.0416	3.0416
Kalamazoo Valley Community College	2.8151	2.8151	2.8139	2.8139	2.8135
Kalamazoo District Library	3.9583	3.9583	3.9583	3.9583	3.9583
Total (3)	<u>\$64.5717</u>	<u>\$65.6017</u>	<u>\$66.0705</u>	<u>\$65.0705</u>	<u>\$66.2901</u>

- (1) Homestead means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or entity. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. Non-homestead is property not included in the above definition.
- (2) The Kalamazoo Public Schools is the largest school district within the City. Portions of other school districts overlap the City's boundaries. Of those which do, the millage rates for the fiscal year ended December 31, 2004 ranged from \$21.2000 to \$24.4084 for each \$1,000 of Taxable Value. The total tax rates for property owners in these other school districts would differ accordingly.
- (3) The City's Downtown Development Authority levies an additional \$2.00 for each \$1,000 of Taxable Value within the City's Downtown Development District.

CITY OF KALAMAZOO, MICHIGAN

PRINCIPAL TAXPAYERS

DECEMBER 31, 2004

Taxpayer	Principal Product or Service	Taxable Value of Property (A)			(C) Percent of Total
		Ad Valorem	Abated (B)	Total	
Pfizer Corporation	Pharmaceuticals	\$ 128,238,121	\$ 11,561,600	\$ 139,799,721	9.35%
Graphic Packaging	Paper Products	32,006,092	309,300	32,315,392	2.16%
Consumer's Energy	Utility	25,065,872	-	25,065,872	1.68%
American Greetings	Paper Products	10,373,854	4,604,200	14,978,054	1.00%
Greenleaf Holdings	Real Estate	14,161,572		14,161,572	0.95%
James S. Smith Trust	Rental Properties	12,432,789	-	12,432,789	0.83%
Bronson Hospital	Health Care	9,998,862	-	9,998,862	0.67%
Lifecare (Friendship Village)	Retirement Community	9,347,742		9,347,742	0.62%
National City Bank	Banking	9,206,484		9,206,484	0.62%
TVO/Candlewyck Apartments	Apartment Complex	8,974,930		8,974,930	0.60%
		<u>\$ 259,806,318</u>	<u>\$ 16,475,100</u>	<u>\$ 276,281,418</u>	<u>18.47%</u>

(A) These values are the basis for the 2004 Assessment Roll and 2004 Tax Roll.

(B) Represents equivalent taxable value of property granted tax abatement under Acts 198.

(C) Based on the City's 2004 Total Taxable Valuation including Act 198 values totaling \$1,528,701,771.

CITY OF KALAMAZOO, MICHIGAN

SPECIAL ASSESSMENTS BILLINGS AND COLLECTIONS

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Special Assessment Billings</u>	<u>Special Assessments Collected</u>
1994	\$ 58,777	\$ 96,840
1995	34,652	77,283
1996	24,671	45,837
1997	96,880	67,168
1998	42,218	78,127
1999	718,160	190,112
2000	270,940	132,014
2001	89,034	206,540
2002	41,200	151,997
2003	59,597	137,860
2004	44,810	109,455

CITY OF KALAMAZOO, MICHIGAN
COMPUTATION OF LEGAL DEBT MARGIN
DECEMBER 31, 2004

State Equalized Value (adjusted) - December 31, 2004 (A)		\$ 1,769,691,700
Limitation per Section 5.2074 of the Home Rule Act of the State of Michigan		<u>10.0%</u>
Legal Limitation		<u>176,969,170</u>
Gross Direct Debt of the City (B)		78,945,085
Less debt not subject to limitation:		
Water System and Wastewater System Revenue Bonds	\$ 23,885,000	
Michigan Transportation Fund Bonds	12,925,000	
Special Assessment Bonds	425,000	
Environmental Bonds	<u>295,000</u>	<u>37,530,000</u>
Total Debt of the City Subject to Limitation		<u>41,415,085</u>
LEGAL DEBT MARGIN		<u><u>\$ 135,554,085</u></u>

(A) State equalized assessed value includes actual Industrial Facilities and Commercial Facilities Tax valuations under act 198.

(B) Per Table 11

CITY OF KALAMAZOO, MICHIGAN

**RATIO OF NET GENERAL OBLIGATION DEBT
TO STATE EQUALIZED VALUE AND
NET GENERAL OBLIGATION DEBT PER CAPITA**

LAST TEN FISCAL YEARS

Year	(A) Population (estimated)	(B) State Equalized Value (SEV) (adjusted)	(C) Total General Obligation Debt	(D) Amounts Payable from Enterprise Revenues and Other Sources	Net Bonded Debt	Ratio of Net Bonded Debt to SEV	Net Bonded Debt Per Capita
1995	80,277	\$ 1,104,662,910	\$ 36,207,000	\$ 31,622,000	\$ 4,585,000	0.42%	\$ 57.11
1996	80,277	1,142,812,152	33,849,000	29,182,750	4,666,250	0.41%	58.13
1997	80,277	1,217,386,170	33,412,580	28,168,950	5,243,630	0.43%	65.32
1998	80,277	1,249,837,475	33,591,000	28,811,624	4,779,376	0.38%	59.54
1999	80,277	1,297,108,878	40,577,772	31,575,000	9,002,772	0.69%	112.15
2000	77,145	1,296,048,568	40,232,378	31,042,683	9,189,695	0.71%	119.12
2001	77,145	1,360,346,140	41,215,955	30,101,100	11,114,855	0.82%	144.08
2002	77,145	1,428,540,880	38,949,595	25,685,008	13,264,587	0.93%	171.94
2003	77,145	1,493,160,078	47,016,084	34,093,884	12,922,200	0.87%	167.51
2004	77,145	1,530,391,155	54,635,085	32,488,797	22,146,288	1.45%	287.07

(A) Source: Bureau of the Census

(B) Includes effective SEV for Act 198 abatements; all figures are taxable values.

(C) Includes limited tax general obligation installment purchase contracts; does not include defeased and escrowed bonds.

(D) General Obligation bonds that are being repaid from enterprise revenues, or reimbursements by other entities.

CITY OF KALAMAZOO, MICHIGAN

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL OBLIGATION BONDED DEBT TO
TOTAL GENERAL GOVERNMENTAL EXPENDITURES**

LAST TEN FISCAL YEARS

Fiscal Year	Principal	Interest	Total Debt Service	(A) Total General Expenditures	Ratio of Debt Service to Total General Governmental Expenditures
1995	\$ 595,000	\$ 511,266	\$ 1,106,266	\$ 49,170,395	2.2%
1996	640,000	537,717	1,177,717	54,320,971	2.2%
1997	780,000	556,533	1,336,533	54,474,535	2.5%
1998	730,000	560,538	1,290,538	52,550,967	2.5%
1999	910,453	571,518	1,481,971	53,396,383	2.8%
2000	940,000	608,099	1,548,099	55,558,876	2.8%
2001	1,375,000	662,302	2,037,302	56,173,916	3.6%
2002	1,485,000	595,817	2,080,817	58,149,288	3.6%
2003	1,725,000	531,293	2,256,293	57,557,374	3.9%
2004	1,515,000	510,478	2,025,478	63,385,661	3.2%

(A) Includes general and special revenue funds.

Note: Only Michigan Transportation Fund and Environmental Improvement bonded debt service is paid from these sources.

CITY OF KALAMAZOO, MICHIGAN
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
DECEMBER 31, 2004

	Gross Debt	Self-Supporting	Net Debt
Building Authority Bonds:			
Dated March 1, 1993 (2)	\$ 705,000	\$ 705,000	\$ -
Dated June 15, 1993 (2)	200,000	200,000	-
Dated August 1, 1994 (2)	530,000	530,000	-
Dated October 1, 1997 (2)	1,255,000	1,255,000	-
Dated November 17, 1998 (2)	6,525,000	5,625,000	900,000
Dated December 1, 1998 (2)	1,370,000	1,326,369	43,631
Dated September 1, 1999 (2) (4)	8,385,000	-	8,385,000
Dated April 1, 2001 (2)	3,250,000	-	3,250,000
Dated January 1, 2002 (2)	910,000	-	910,000
Dated January 27, 2003 (2)	1,765,000	-	1,765,000
	<u>24,895,000</u>	<u>9,641,369</u>	<u>15,253,631</u>
Michigan Transportation Fund Obligations:			
Bonds dated June 1, 1994 (2)	475,000	475,000	-
Bonds dated March 1, 1996 (2)	1,430,000	1,430,000	-
Bonds dated April 1, 1998 (2)	1,560,000	1,560,000	-
Bonds dated April 1, 2000 (2)	2,305,000	2,305,000	-
Bonds dated April 1, 2002 (2)	2,835,000	2,835,000	-
Bonds dated April 27, 2004 (2)	4,320,000	4,320,000	-
	<u>12,925,000</u>	<u>12,925,000</u>	<u>-</u>
Water Bonds or Wastewater Bonds:			
Dated February 1, 1995 (Revenue)	200,000	200,000	-
Dated June 1, 1996 (Revenue)	3,035,000	3,035,000	-
Dated April 1, 2001 (Revenue)	4,205,000	4,205,000	-
Dated June 6, 2002 (Revenue)	8,380,000	8,380,000	-
Dated October 23, 2002 (Revenue)	3,055,000	3,055,000	-
Dated April 27, 2004 (Revenue)	5,010,000	5,010,000	-
	<u>23,885,000</u>	<u>23,885,000</u>	<u>-</u>
Downtown Development Bonds			
Dated March 1, 1992 (2)	1,825,000	1,825,000	-
Dated June 15, 1993 (2)	2,290,000	2,290,000	-
Dated September 1, 1997 (2)	2,130,000	2,130,000	-
	<u>6,245,000</u>	<u>6,245,000</u>	<u>-</u>
Special Assessment Bonds:			
Dated September 1, 1999 (2)	425,000	425,000	-
	<u>425,000</u>	<u>425,000</u>	<u>-</u>
Environmental Improvement Bonds			
Dated April 1, 2000 (3)	295,000	295,000	-
	<u>295,000</u>	<u>295,000</u>	<u>-</u>
Installment Purchase Obligations:			
Notes Dated December 1, 1995 (2)	180,000	-	180,000
Contract Dated June 16, 1997 (2)	388,400	-	388,400
Contract Dated June 22, 2000 (2)	84,000	-	84,000
Contract Dated July 24, 2000 (2)	221,000	221,000	-
Contract Dated March 12, 2002 (2)	96,685	96,685	-
	<u>970,085</u>	<u>317,685</u>	<u>652,400</u>
Capital Improvement Bonds			
Dated August 1, 2002	890,000	-	890,000
Dated April 27, 2004 (1)	8,415,000	3,064,743	5,350,257
	<u>9,305,000</u>	<u>3,064,743</u>	<u>6,240,257</u>
Total Direct Debt	\$ 78,945,085	\$ 56,798,797	\$ 22,146,288
Overlapping Debt:			
Percent Municipality	Amount Outstanding	City's Share	
59.34% Kalamazoo Library District	\$ 11,600,000	\$ 6,883,440	
62.16% Kalamazoo School District	80,353,000	49,947,425	
16.53% Comstock School District	10,762,000	1,778,959	
1.61% Portage School District	38,802,000	624,712	
1.05% Parchment School District	17,825,000	187,163	
22.11% Kalamazoo County	9,500,000	2,100,450	
Net Overlapping Debt			61,522,149
NET DIRECT AND OVERLAPPING DEBT			\$83,668,437

- (1) Secured by the City's full faith and credit and unlimited taxing power
(2) Secured by the City's full faith and credit and limited taxing power
(3) Secured by the City's refuse, collection, and disposal levy
(4) Self-supporting portion is annual payments of \$200,000 to be received from Kalamazoo County for the life of the principal repayments.

CITY OF KALAMAZOO, MICHIGAN

REVENUE BOND COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	(A)	(B)	Net Revenue Available for Debt Service	Debt Service Requirements (C)			Coverage
	Gross Revenues	Direct Operating Expense		(Revenue Bonds Only)			
				Principal	Interest	Total	
<u>Wastewater System Fund</u>							
1995	\$ 18,331,353	\$ 14,525,438	\$ 3,805,915	\$ 1,250,000	\$ 699,758	\$ 1,949,758	1.95
1996	18,652,352	14,901,719	3,750,633	1,320,000	647,882	1,967,882	1.91
1997	18,470,158	14,744,094	3,726,064	1,410,000	587,822	1,997,822	1.87
1998	19,374,346	15,859,622	3,514,724	1,465,000	520,848	1,985,848	1.77
1999	19,468,532	14,776,483	4,692,049	1,535,000	448,330	1,983,330	2.37
2000	20,051,449	15,193,703	4,857,746	1,675,000	370,045	2,045,045	2.38
2001	19,095,217	15,546,031	3,549,186	270,000	108,568	378,568	9.38
2002	18,047,797	16,018,129	2,029,668	170,000	209,035	379,035	5.35
2003	19,689,923	15,480,424	4,209,499	175,000	203,680	378,680	11.12
2004	19,165,678	16,537,269	2,628,409	180,000	197,993	377,993	6.95

Water System Fund

1995	8,558,283	6,504,496	2,053,787	330,000	784,926	1,114,926	1.84
1996	8,788,543	6,748,604	2,039,939	305,000	937,485	1,242,485	1.64
1997	8,898,031	6,552,109	2,345,922	520,000	1,109,316	1,629,316	1.44
1998	10,113,204	5,843,320	4,269,884	545,000	1,082,584	1,627,584	2.62
1999	9,810,609	6,808,040	3,002,569	570,000	1,054,259	1,624,259	1.85
2000	9,804,250	6,945,196	2,859,054	600,000	1,024,231	1,624,231	1.76
2001	9,937,764	7,334,374	2,603,390	630,000	992,193	1,622,193	1.60
2002	10,664,599	7,547,334	3,117,265	665,000	796,662	1,461,662	2.13
2003	9,716,990	7,435,078	2,281,912	785,000	554,405	1,339,405	1.70
2004	9,926,656	7,281,642	2,645,013	940,000	800,314	1,740,314	1.52

(A) Includes charges for services, operating revenues, and interest earned. Beginning in 2001, grant revenues are excluded. Interest earned on construction fund bond monies is excluded.

(B) Includes operations, amortization of bond issuance costs, and other expenses. Beginning in 2001, expenses associated with grant revenues are excluded.

(C) Reflects interest payments paid from operating revenue. Interest payments paid from proceeds of 1992 Water System Revenue Refunding Bonds are excluded.

CITY OF KALAMAZOO, MICHIGAN

DEMOGRAPHIC STATISTICS

LAST TEN FISCAL YEARS

Fiscal Year	(A) Population	(B) Per Capita Income	(C) Median Age	(D) School Enrollment	(E) Unemployment Rate
1995	80,277	\$ 23,688	26.8	12,343	5.2%
1996	80,277	24,609	26.8	12,537	4.9%
1997	80,277	25,332	26.8	12,355	4.6%
1998	80,277	26,692	26.8	11,600	3.8%
1999	80,277	27,024	26.8	11,305	4.0%
2000	77,145	27,813	26.1	11,212	4.0%
2001	77,145	28,625	26.1	16,124	5.7%
2002	77,145	29,269	26.1	16,195	6.3%
2003	77,145	30,429	26.1	15,859	7.6%
2004	77,145	30,810	26.1	15,019	8.0%

- (A) 1995 to 1999 from Bureau of the Census 1990 Population Report. 2000 to 2004 from Bureau of the Census 2000 Population Report.
- (B) 1995 - 2003 from Bureau of Economic Analysis, as updated May, 2005. 2004 is an estimate from the W.E. Upjohn Insititute, as of May, 2005. Information is for Kalamazoo County.
- (C) 1995 - 1999 from Bureau of the Census 1990 Population Report. 2000 - 2003 from Bureau of the Census 2004 Population Report.
- (D) 1995 - 2000 Kalamazoo Public Schools only. 2001 - 2004 include Kalamazoo Public Schools and private and charter school enrollments.
- (E) Michigan Department of Career Development. Statistics for 1995-2003 differ from previous years' tables due to the revision of these years by the state following the implementation by the Bureau of Labor Statistics of a redesigned method of producing these estimates.

CITY OF KALAMAZOO, MICHIGAN
PROPERTY VALUE AND CONSTRUCTION
LAST TEN FISCAL YEARS

Year	Property Value (expressed in thousands) (A)				Construction (B)			
	Industrial and Commercial	Residential	Industrial and Commercial Abated		Commercial and Industrial		Residential	
			Value (C)	Total	# of Units	Value*	# of Units	Value*
1995	\$ 361,470	\$ 507,197	\$ 74,032	\$ 942,699	118	\$ 15,715	596	\$ 23,310
1996	392,766	539,213	64,522	996,501	148	20,134	647	11,283
1997	430,673	571,800	49,119	1,051,592	133	36,595	637	14,696
1998	446,389	627,645	46,257	1,120,291	131	32,518	619	6,224
1999	487,806	665,029	43,171	1,196,006	150	46,427	722	10,012
2000	497,953	694,448	40,128	1,232,529	239	37,430	711	11,774
2001	508,718	732,220	31,951	1,272,889	190	65,081	1,096	10,104
2002	561,623	781,208	15,165	1,357,996	177	96,158	778	12,147
2003	592,878	830,146	35,442	1,458,466	145	48,244	706	13,444
2004	638,823	877,641	37,625	1,554,089	188	60,157	733	17,556

* Amounts expressed in thousands (000's).

(A) Initial State Equalized Value (assessed value at 50% of true cash value) - real property only.

(B) Source: City of Kalamazoo Community Development Department, Inspection Services.

(C) Represents abated values reflected as frozen values prior to rehabilitation or abated at 1/2 the State Equalized Value. Includes real and personal property.

CITY OF KALAMAZOO
MISCELLANEOUS STATISTICAL DATA
DECEMBER 31, 2004

Date Originally Chartered	1883
Date of Incorporation as a City	1884
Form of Government	Commission - Manager
Population	77,145
Area	26 Square Miles
Miles of Streets	266 Miles

Public Safety (Police/Fire):

Number of Stations	7
Number of Regular Fireman	4
Number of Regular Public Safety Officers	250
Number of Community Service Officers	28
Insurance Service Office Rating	ISO III

Public Utilities:

Water:

Number of Jurisdictions Served	10
Number of Accounts	42,177
Wells in Service	103
Miles of Water Main	665.25
Well Capacity	66,790,000 Gallons
Storage Capacity	17,800,000 Gallons
Average Daily Consumption	,000 Gallons
2004 Peak Day Pumping (7/21/04)	32,868,000 Gallons

Water Reclamation:

Number of Sewer Accounts	30,368
Number of Jurisdictions Served (Including Master Metered Contract Municipalities)	19
Miles of Sewer Main (City only)	291
Treatment	Provided by City of Kalamazoo

CITY OF KALAMAZOO**MISCELLANEOUS STATISTICAL DATA (Concluded)****December 31, 2004****Parks and Recreation**

Number of Parks & Other Greenspace	50
Acreage of Parks & Other Greenspace	756

Education:

Kalamazoo Public Schools	10,400 Students
Kalamazoo Christian Schools	1,238 Students
Catholic Schools	1,413 Students
Other Non-Public Schools	1,238 Students
Charter Schools	730 Students

Metro Transit (Fixed Route and Complimentary Paratransit):

Total Service Hours	164,782
Miles in 2004	2,057,609
Passengers in 2004	3,057,216
Number of Buses	45
Number of Routes	22*
Service	Monday through Saturday

*Plus Complimentary ADA Service

CITY OF KALAMAZOO, MICHIGAN

SCHEDULE OF REVENUES AND EXPENDITURES

FOR ACTIVITIES RELATED TO THE STATE CONSTRUCTION CODE ACT

MICHIGAN PUBLIC ACT 245

FOR PERIOD ENDING DECEMBER 31, 2004

REVENUES:

Building Permits	\$ 405,219	
Electrical Permits	85,916	
Mechanical Permits	71,765	
Plumbing Permits	40,809	
Other Permits & License Fees	82,249	
TOTAL REVENUES	<u> </u>	\$ 685,958

EXPENDITURES:

Wages, Salaries and Benefits	569,622	
Supplies	11,651	
Services	63,636	
Administrative Overhead*	94,864	
TOTAL EXPENDITURES	<u> </u>	<u>739,773</u>
EXCESS/(DEFICIT) REVENUES OVER EXPENDITURES	<u>\$ (53,815)</u>	

*Administrative overhead is computed for all City departments using a full cost-allocation plan. However, it is not charged to General Fund departments. Public Act 245 of 1999, which require the inclusion of this schedule, also includes overhead as part of the expenditures to be reported.

CITY OF KALAMAZOO, MICHIGAN
EMPLOYEE'S RETIREMENT SYSTEM
REVENUE BY SOURCE AND EXPENSES BY TYPE

Revenue by Source					
<u>Year Ended December 31</u>	<u>Employee Contributions</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a % of Covered Payroll</u>	<u>Investment Income (Loss)</u>	<u>Total</u>
1995	\$ 1,680,431	\$ 1,889,474	5.4%	\$ 53,787,904	\$57,357,809
1996	1,867,369	1,500,398	4.3%	34,192,068	37,559,835
1997	1,918,690	840,966	2.3%	58,295,099	61,054,755
1998	1,912,918	-	-	40,484,951	42,397,869
1999	1,632,579	-	-	48,075,425	49,708,004
2000	1,464,329	-	-	9,692,656	11,156,985
2001	1,421,887	-	-	5,455,410	6,877,297
2002	1,472,060	-	-	(33,506,436)	(32,034,376)
2003	1,477,702	-	-	91,757,266	93,234,968
2004	1,517,175	-	-	56,524,988	58,042,163

Expenses by Type					
<u>Year Ended December 31</u>	<u>Benefits</u>	<u>Administrative Expenses (1)</u>	<u>Refunds</u>	<u>Total</u>	
1995	\$ 6,341,064	\$ 226,259	\$ 251,112	\$ 6,818,435	
1996	7,397,140	256,658	441,113	8,094,911	
1997	8,101,582	284,899	212,831	8,599,312	
1998	8,728,177	326,725	2,187,714 (2)	11,242,616	
1999	9,651,489	347,015	342,280	10,340,784	
2000	9,787,860	388,328	281,804	10,457,992	
2001	11,125,036	350,335	321,125	11,796,496	
2002	10,941,864	370,572	216,108	11,528,544	
2003	12,206,053	373,945	184,431	12,764,429	
2004	13,400,871	381,908	154,162	13,936,941	

(1) Investment advisor fees are reported as a reduction of investment income, rather than as administrative expense.

(2) Includes transfer to Kalamazoo County of \$1,800,000 during 1998 for District Court Employees.

CITY OF KALAMAZOO, MICHIGAN

TOTAL TAXABLE VALUE

FISCAL YEARS ENDED DECEMBER 31, 2000 THROUGH 2004

Taxable Value as of December 31	Year of State Equalization and Tax Levy	Fiscal Year Ended December 31	Actual Adjusted SEV			Percent Increase over Prior Year
			Ad Valorem Taxable Value (1)	Abated Property	Total Taxable Value	
1998	1999	1999	\$ 1,257,214,475	\$ 43,091,875	\$ 1,300,306,350	3.86%
1999	2000	2000	1,292,202,600	39,899,025	1,332,101,625	2.45%
2000	2001	2001	1,332,207,350	29,994,850	1,362,202,200	2.26%
2001	2002	2002	1,411,144,730	15,108,650	1,426,253,380	4.70%
2002	2003	2003	1,460,450,750	35,442,050	1,495,892,800	4.88%
2003	2004	2004	1,491,444,525	37,257,246	1,528,701,771	2.19%

Per Capita Total Taxable Value for the Fiscal Year Ending December 31, 2004 (2) \$ 19,815.95

(1) Does not include the value of property located within the City's Renaissance Zone which was created pursuant to the provisions of Act 376 of the Michigan Public Acts of 1996, as amended ("Act 376"). Act 376 was designed to stimulate private investment within the Zone through the abatement of certain property, income, and business taxes. For the fiscal year ending December 31, 2004, the Taxable Value of the property located in the Zone totaled \$2,838,183.

(2) Based on the City's 2000 census of 77,145

TOTAL TAXABLE VALUE BY USE AND CLASS

	Fiscal Years Ended December 31				
	2000	2001	2002	2003	2004
Use					
Commercial	\$426,593,350	\$457,559,650	\$468,564,730	\$483,660,050	\$507,767,772
Industrial	311,643,625	284,155,500	306,436,000	336,919,950	309,894,785
Residential	593,864,650	620,487,050	651,252,650	675,312,800	711,039,214
	<u>\$1,332,101,625</u>	<u>\$1,362,202,200</u>	<u>\$1,426,253,380</u>	<u>\$1,495,892,800</u>	<u>\$1,528,701,771</u>
Class					
Real	\$1,091,138,400	\$1,120,358,350	\$1,184,635,880	\$1,237,383,700	\$1,296,480,721
Personal	240,963,225	241,843,850	241,617,500	258,509,100	232,221,050
	<u>\$1,332,101,625</u>	<u>\$1,362,202,200</u>	<u>\$1,426,253,380</u>	<u>\$1,495,892,800</u>	<u>\$1,528,701,771</u>

PERCENT OF TOTAL TAXABLE VALUE BY USE AND CLASS

	Fiscal Years Ended December 31				
	2000	2001	2002	2003	2004
Use					
Commercial	32.02%	33.59%	32.85%	32.33%	33.22%
Industrial	23.39%	20.86%	21.49%	22.52%	20.27%
Residential	44.58%	45.55%	45.66%	45.14%	46.51%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Class					
Real	81.91%	82.25%	83.06%	82.72%	84.81%
Personal	18.09%	17.75%	16.94%	17.28%	15.19%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

CITY OF KALAMAZOO, MICHIGAN

STATE EQUALIZED VALUATION (SEV)

FISCAL YEARS ENDED DECEMBER 31, 2000 THROUGH 2004

Assessed Value as of December 31	Year of State Equalization and Tax Levy	Fiscal Year Ended December 31	Actual Adjusted SEV			Percent Increase
			Ad Valorem Property	Abated Property	Total	
1998	1999	1999	\$ 1,391,862,520	\$ 82,789,500	\$ 1,474,652,020	6.24%
1999	2000	2000	1,430,362,900	77,887,950	1,508,250,850	2.28%
2000	2001	2001	1,480,093,765	62,064,600	1,542,158,365	2.25%
2001	2002	2002	1,580,375,980	28,091,000	1,608,466,980	4.30%
2002	2003	2003	1,667,513,680	35,850,050	1,703,363,730	5.90%
2003	2004	2004	1,732,394,900	37,296,800	1,769,691,700	3.89%

Per Capita Total SEV for the Fiscal Year Ending December 31, 2004 (1) \$ 22,939.81

(1) Based on the City's 2000 census of 77,145

TOTAL SEV BY USE AND CLASS

	Fiscal Years Ended December 31				
	2000	2001	2002	2003	2004
Use					
Commercial	\$459,858,200	\$489,932,000	\$500,713,730	\$528,423,500	\$576,772,600
Industrial	353,944,250	319,899,300	326,477,700	346,110,900	316,876,700
Residential	694,448,400	732,327,065	781,275,550	828,829,330	876,042,400
	<u>\$1,508,250,850</u>	<u>\$1,542,158,365</u>	<u>\$1,608,466,980</u>	<u>\$1,703,363,730</u>	<u>\$1,769,691,700</u>
Class					
Real	\$1,264,559,200	\$1,295,900,365	\$1,369,591,030	\$1,444,661,180	\$1,538,229,150
Personal	243,691,650	246,258,000	238,875,950	258,702,550	231,462,550
	<u>\$1,508,250,850</u>	<u>\$1,542,158,365</u>	<u>\$1,608,466,980</u>	<u>\$1,703,363,730</u>	<u>\$1,769,691,700</u>

PERCENT OF TOTAL SEV BY USE AND CLASS

	Fiscal Years Ended December 31				
	2000	2001	2002	2003	2004
Use					
Commercial	30.49%	31.77%	31.13%	31.02%	32.59%
Industrial	23.47%	20.74%	20.30%	20.32%	17.91%
Residential	46.04%	47.49%	48.57%	48.66%	49.50%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Class					
Real	83.84%	84.03%	85.15%	84.81%	86.92%
Personal	16.16%	15.97%	14.85%	15.19%	13.08%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

CITY OF KALAMAZOO, MICHIGAN

MAXIMUM OPERATING TAX RATES

DECEMBER 31, 2004

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Cumulative Millage Reduction Fraction (A)</u>	<u>Maximum Allowable Millage</u>
Operating	20.0000	0.9635	19.2705
Refuse Collection and Disposal	3.0000	0.9635	2.8906
Transportation	1.0000	1.0000	1.0000
	<u>24.0000</u>	<u>2.9270</u>	<u>23.1611</u>

(A) The cumulative millage reduction fraction reduces the authorized millage based on the Headlee amendment which limits the rate of growth of property tax revenue to the consumers price index.

CITY OF KALAMAZOO, MICHIGAN
REVENUE SHARING PAYMENTS FROM THE STATE OF MICHIGAN
FISCAL YEARS ENDED DECEMBER 31, 2000 THROUGH 2004

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Sales Tax	\$ 12,837,831	\$ 12,467,071	\$ 11,966,936	\$ 11,037,576	\$ 10,069,811
% of General Fund Revenue (1)	27.2%	26.6%	25.3%	23.3%	21.0%

(1) Non-GAAP, budgetary basis

CITY OF KALAMAZOO, MICHIGAN

RECEIPTS FROM MICHIGAN TRANSPORTATION FUND

FISCAL YEARS ENDED DECEMBER 31, 2002 THROUGH 2004

	Fiscal Years Ended December 31		
	2002	2003	2004
<u>Cash Basis</u>			
Major Streets	\$3,999,573	\$4,107,782	\$4,363,410
Local Streets	1,117,090	1,146,596	1,219,380
	<u>\$ 5,116,663</u>	<u>\$ 5,254,378</u>	<u>\$ 5,582,791</u>

	Fiscal Years Ended December 31		
	2002	2003	2004
<u>Accrual Basis</u>			
Major Streets	\$3,970,670	\$4,154,486	\$4,351,527
Local Streets	1,109,207	1,159,188	1,216,600
	<u>\$ 5,079,877</u>	<u>\$ 5,313,674</u>	<u>\$ 5,568,128</u>

CITY OF KALAMAZOO, MICHIGAN**LABOR CONTRACTS****DECEMBER 31, 2004**

<u>Bargaining Unit</u>	<u>Membership</u>	<u>Contract Expiration Date</u>
American Federation of State, County and Municipal Employees	172	October 2, 2004*
Kalamazoo Municipal Employees Association	140	December 31, 2004*
Kalamazoo Police Supervisors Association (Captains, Lieutenants and Sergeants)	53	December 31, 2005
Kalamazoo Police Officers Association (Officers and Detectives)	220	December 31, 2004*
International Association of Fire Fighters	5	December 31, 2005
Amalgamated Transit Union (Bus Drivers and Mechanics)	109	February 13, 2007
Non-Union	<u>177</u>	Not Applicable
Total Employees	<u>876</u>	

*In process of negotiation.

CITY OF KALAMAZOO, MICHIGAN**PROFILE OF MAJOR EMPLOYERS
IN KALAMAZOO COUNTY**

<u>Company</u>	<u>Principal Product or Service</u>	<u>Approx. Number of Employees</u>
Pfizer Corporation	Pharmaceuticals	6,100
Bronson Healthcare Systems	Health Care	3,700
Western Michigan University	Education	3,500
Meijer, Inc.	Retail Goods and Household Products	3,000
National City Bank	Banking Services	3,000
Borgess Medical Center	Health Care	2,721
Kalamazoo Public Schools	Education	2,100
Portage Public Schools	Education	1,173
County of Kalamazoo	Government	1,000
Summit Polymers	Auto Supplier - Interior Trim	1,000
United States Postal Service	Mail Services	945
Stryker Corporation	Medical Equipment	900
City of Kalamazoo	Government	876
Kalamazoo Valley Community College	Education	875
Eaton Corporation	Heavy-Duty Transmissions	500
Graphic Packaging	Printing and Packaging Paper	467
Borroughs Corp	Steel Storage Products	450
ABEX/NWL Aerospace	Aircraft Components	431
Gentiva Health Services	Home Nursing	400
American Greetings/Designware	Paper Products	400
Flowserve FSD Corporation	Mechanical Sales	380
Kalamazoo Regional Psychiatric Hospital	Health Care	378
CMC Kalamazoo	Automotive Parts	375
The Kalamazoo Gazette	Printing and Publishing	350
Kalamazoo College	Education	350
Eimo	Plastic Manufacturing	350

CITY OF KALAMAZOO, MICHIGAN**EMPLOYMENT STATISTICS****1999 - 2004**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City of Kalamazoo						
Employed	40,925	42,350	41,150	40,675	40,775	36,975
Unemployed	1,700	1,775	2,500	2,750	3,350	3,225
Labor Force	<u>42,625</u>	<u>44,125</u>	<u>43,650</u>	<u>43,425</u>	<u>44,125</u>	<u>40,200</u>
Unemployed as % of Labor Force	<u>4.0%</u>	<u>4.0%</u>	<u>5.7%</u>	<u>6.3%</u>	<u>7.6%</u>	<u>8.0%</u>
State of Michigan						
Employed	4,897,100	4,967,200	4,864,600	4,724,000	4,695,100	4,719,300
Unemployed	192,300	190,200	267,300	314,800	358,400	359,600
Labor Force	<u>5,089,400</u>	<u>5,157,400</u>	<u>5,131,900</u>	<u>5,038,800</u>	<u>5,053,500</u>	<u>5,078,900</u>
Unemployed as % of Labor Force	<u>3.8%</u>	<u>3.7%</u>	<u>5.2%</u>	<u>6.2%</u>	<u>7.1%</u>	<u>7.1%</u>

Source: Michigan Department of Career Development

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

WATER SUPPLY FRANCHISES

<u>Franchisor</u>	<u>Effective Date</u>	<u>Year of Renewal</u>
Comstock Township	23-Dec-64	1994*
Cooper Township	18-Nov-68	1998*
Kalamazoo Township	30-Jan-70	2000*
Oshtemo Township	8-Feb-65	1995*
Pavilion Township	18-Nov-68	1998*
City of Portage (1)	28-May-74	2004
City of Portage (1)	21-Apr-80	2010
City of Portage (1)	10-Jul-89	2019
Richland Township	28-Feb-72	2002*
Richland Village	26-Jul-76	2006
Texas Township	11-Dec-67	1997*

* For any contracts which have expired, the City and the affected Township(s) are continuing their relationship under the continuation continuation portion of the agreement(s).

(1) The City of Portage has three agreements due to the addition of new service areas at different times.

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****APPROXIMATE NUMBER OF WATER SUPPLY CUSTOMERS
BY LOCATION AND USER CLASSIFICATION****LAST FIVE FISCAL YEARS**

<u>Customer Location and Classification</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City:					
Residential	18,176	18,185	18,115	18,148	18,102
Commercial / Industrial	4,856	4,857	4,907	4,939	4,907
Total City	<u>23,032</u>	<u>23,042</u>	<u>23,022</u>	<u>23,087</u>	<u>23,009</u>
Out City:					
Residential	13,474	13,930	14,165	14,487	14,970
Commercial / Industrial	3,461	3,695	3,896	4,013	4,198
Total Out City	<u>16,935</u>	<u>17,625</u>	<u>18,061</u>	<u>18,500</u>	<u>19,168</u>
Total System:					
Residential	31,650	32,115	32,280	32,635	33,072
Commercial / Industrial	8,317	8,552	8,803	8,952	9,105
Total System	<u>39,967</u>	<u>40,667</u>	<u>41,083</u>	<u>41,587</u>	<u>42,177</u>

(1) Data listed represents the number of meters and/or fire protection lines/hydrants for each year.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

APPROXIMATE NUMBER OF WATER CUSTOMERS BY LOCATION
AND SIZE OF METER OR FIRE PROTECTION LINE/HYDRANT

	<u>2003</u>	<u>2004</u>
<u>Meter Location and Size</u>		
City:		
5/8" - 3/4"	16,929	16,774
1"	2,047	2,099
1 1/2"	237	234
2"	1,009	1,010
3"	177	178
4"	92	94
6"	11	11
8"	0	0
Total City	<u>20,502</u>	<u>20,400</u>
Out City:		
5/8" - 3/4"	8,570	8,525
1"	6,071	6,536
1 1/2"	262	274
2"	779	814
3"	113	112
4"	53	51
6"	10	10
8"	1	0
Total Out City	<u>15,859</u>	<u>16,322</u>
Total Meters	<u>36,361</u>	<u>36,722</u>
<u>Location and Size of Fire Protection Line/Hydrant</u>		
City:		
4"	135	144
6"	132	132
8"	77	76
10"	1	1
Hydrants	<u>2,240</u>	<u>2,256</u>
Total City	<u>2,585</u>	<u>2,609</u>
Out City:		
4"	105	117
6"	77	77
8"	61	62
10"	4	4
Hydrants	<u>2,394</u>	<u>2,586</u>
Total Out City	<u>2,641</u>	<u>2,846</u>
Total Fire Protector	<u>5,226</u>	<u>5,455</u>
Total Service Connections	<u>41,587</u>	<u>42,177</u>

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

WATER SUPPLY READY-TO-SERVE CHARGES

BY METER LOCATION AND SIZE

LAST FIVE FISCAL YEARS

<u>Meter Location and Size</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City (Quarterly Billed Accounts):					
5/8" Meter	\$ 10.81	\$ 11.00	\$ 12.03	\$ 12.03	\$ 11.93
1" Meter	13.64	13.95	15.35	15.35	14.86
1-1/2" Meter	16.46	16.90	18.67	18.67	17.78
2" Meter	24.23	25.01	27.81	27.81	25.83
City (Monthly Billed Accounts):					
5/8" Meter	6.10	6.08	6.49	6.49	7.06
1" Meter	7.05	7.06	7.60	7.60	8.03
1-1/2" Meter	7.99	8.05	8.70	8.70	9.01
2" Meter	10.58	10.75	11.75	11.75	11.69
3" Meter	29.65	30.67	34.18	34.18	31.43
4" Meter	36.71	38.05	42.49	42.49	38.75
6" Meter	53.19	55.26	61.87	61.87	55.81
8" Meter	72.02	74.94	84.03	84.03	75.31
City (Monthly Fire Protection Charge):					
4" Detector Check	15.53	16.29	17.27	17.27	15.94
6" Detector Check	20.31	20.06	21.52	21.52	19.82
8" Detector Check	29.24	27.36	29.77	29.77	27.28
10" Detector Check	57.56	53.94	59.81	59.81	54.00
Fire Hydrant	3.33	3.33	3.33	3.33	3.33
Out City (Quarterly Billed Accounts):					
5/8" Meter	12.91	12.94	13.84	13.84	14.62
1" Meter	16.57	16.66	17.89	17.89	18.62
1-1/2" Meter	20.23	20.39	21.94	21.94	22.62
2" Meter	30.30	30.64	33.07	33.07	33.63
Out City (Monthly Billed Accounts):					
5/8" Meter	6.80	6.73	7.09	7.09	7.95
1" Meter	8.02	7.97	8.44	8.44	9.29
1-1/2" Meter	9.24	9.21	9.79	9.79	10.62
2" Meter	12.60	12.63	13.50	13.50	14.29
3" Meter	37.32	37.78	40.83	40.83	41.30
4" Meter	46.47	47.10	50.95	50.95	51.30
6" Meter	67.84	68.84	74.56	74.56	74.64
8" Meter	92.25	93.69	101.55	101.55	101.31
Out City (Monthly Fire Protection Charge):					
4" Detector Check	19.22	24.90	25.18	25.18	25.30
6" Detector Check	25.29	30.21	30.45	30.45	31.09
8" Detector Check	36.65	40.33	40.65	40.65	42.12
10" Detector Check	73.08	75.27	77.40	77.40	79.80
Fire Hydrant	3.33	3.33	3.33	3.33	3.33

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****WATER SUPPLY COMMODITY CHARGES BY
METER LOCATION AND CLASSIFICATION (1)****LAST FIVE FISCAL YEARS**

<u>Meter Location and Classification</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City:					
Residential	\$0.245	\$0.259	\$0.262	\$0.262	\$0.261
Multifamily	0.174	0.184	0.186	0.186	0.174
Commercial/Industrial	0.206	0.220	0.219	0.219	0.206
Fire Protection - First 15 M3	0.206	0.220	0.219	0.219	0.206
Fire Protection - Over 15 M3	0.618	0.660	0.657	0.657	0.618
Seasonal Uses	0.439	0.459	0.467	0.467	0.442
Out City:					
Residential	\$0.377	\$0.386	\$0.402	\$0.402	\$0.457
Multifamily	0.269	0.277	0.288	0.288	0.300
Commercial/Industrial	0.312	0.323	0.333	0.333	0.354
Fire Protection - First 15 M3	0.312	0.320	0.333	0.333	0.354
Fire Protection - Over 15 M3	0.936	0.960	0.999	0.999	1.062
Seasonal Uses	0.711	0.709	0.743	0.743	0.854

(1) per cubic meter

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

HISTORY OF SYSTEM RATE INCREASES

<u>Date Increase Effective</u>	<u>Percent Increase (1)</u>
January 1, 1984	5.00%
February 8, 1995	7.60%
March 2, 1987	5.00%
January 1, 1991	8.00%
January 1, 1993	8.00%
January 1, 1995	5.00%
March 3, 1997	5.00%
February 1, 1998	4.90%
March 15, 1999	2.00%
July 1, 2001	2.00%
February 1, 2002	2.00%
April 30, 2004	3.00%

(1) Reflects anticipated increase in total system revenues. The actual change in rates by meter location and classification vary.

CITY OF KALAMAZOO**WATER SUPPLY SYSTEM****WATER SUPPLY VOLUME AS PUMPED AND BILLED (1)****LAST FIVE FISCAL YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Pumped	26,977,438	26,899,106	27,801,468	26,627,560	25,794,132
Billed	<u>24,388,023</u>	<u>24,254,916</u>	<u>25,568,124</u>	<u>22,717,891</u>	<u>22,715,384</u>
Unaccounted (2)	<u><u>2,589,415</u></u>	<u><u>2,644,190</u></u>	<u><u>2,233,344</u></u>	<u><u>3,909,669</u></u>	<u><u>3,078,748</u></u>
Unaccounted as a Percent of Pumped (3)	<u><u>9.60%</u></u>	<u><u>9.83%</u></u>	<u><u>8.03%</u></u>	<u><u>14.68%</u></u>	<u><u>11.94%</u></u>

(1) Measured in Cubic Meters

(2) Unaccounted water volume is due primarily to the flushing of lines, pressure releases during routine maintenance and, to a diminishing degree, line loss and slow meters. As part of its quality control efforts, the City routinely flushes transmission lines.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

WATER VOLUME AS BILLED BY METER LOCATION AND CLASSIFICATION (1)

LAST FIVE FISCAL YEARS

<u>Meter Location and Classification</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City:					
Residential	4,934,684	4,886,463	5,185,699	4,678,603	4,702,932
Multifamily	2,318,423	2,310,958	2,359,708	2,026,972	2,057,123
Commercial/Industrial	7,429,852	7,218,443	7,369,718	6,515,605	6,375,474
Fire Protection	(696)	14,058 ⁽³⁾	24,145	17,526	13,226
Seasonal Uses (1)	392,140	478,760	682,097	533,360	427,194
Total City	<u>15,074,403</u>	<u>14,908,682</u>	<u>15,621,367</u>	<u>13,772,066</u>	<u>13,575,949</u>
Out City:					
Residential	4,588,219	4,892,758	5,507,974	4,863,779	4,999,192
Multifamily	1,484,346	1,595,360	1,573,023	1,490,873	1,542,022
Commercial/Industrial	2,913,172	2,505,781	2,332,723	2,163,269	2,206,978
Fire Protection	3,474	3,500	1,977	4,417	6,734
Seasonal Uses (1)	324,409	248,835	531,060	423,487	384,509
Total Out City	<u>9,313,620</u>	<u>9,246,234</u>	<u>9,946,757</u>	<u>8,945,825</u>	<u>9,139,435</u>
Total System:					
Residential	9,522,903	9,779,221	10,693,673	9,542,382	9,702,124
Multifamily	3,802,769	3,906,318	3,932,731	3,517,845	3,599,145
Commercial/Industrial	10,343,024	9,724,224	9,702,441	8,678,874	8,582,452
Fire Protection	2,778	17,558	26,122	21,943	19,960
Seasonal Uses (2)	716,549	727,595	1,213,157	956,847	811,703
Total System	<u>24,388,023</u>	<u>24,154,916</u>	<u>25,568,124</u>	<u>22,717,891</u>	<u>22,715,384</u>

(1) Water volume is measured in cubic meters.

(2) Represents flow relating to sprinkler systems which are metered separately.

(3) A correction was made in 2000 that related to water volume that occurred in 1999. This correction exceeded the volume for 2000 and caused the net water volume for the year to appear as negative.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

AVERAGE AND PEAK DAILY WATER SUPPLY VOLUME (1)

LAST FIVE FISCAL YEARS

	2000	2001	2002	2003	2004
Average Daily Water Supply	19.445	19.471	20.120	19.274	18.620
Peak Daily Water Supply	31.369	36.817	40.793	40.401	32.868
Peak as a Percent of Average	161.32%	189.09%	202.75%	209.61%	176.52%

(1) Measured in millions of gallons per day.

CITY OF KALAMAZOO, MICHIGAN

WATER SUPPLY SYSTEM

WATER SUPPLY REVENUE AS BILLED

BY METER LOCATION AND CLASSIFICATION

LAST FIVE FISCAL YEARS

<u>Meter Location and Classification</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City:					
Residential	\$ 1,977,434	\$ 2,013,283	\$ 2,214,094	\$ 2,053,156	\$ 2,105,124
Multifamily	507,594	521,434	556,324	494,134	480,151
Commercial/Industrial	1,744,290	1,761,725	1,871,601	1,685,351	1,585,398
Fire Protection	178,565	124,532	132,630	124,095	114,634
Seasonal Uses	203,465	250,146	353,737	286,379	227,223
Total City	<u>4,611,348</u>	<u>4,671,120</u>	<u>5,128,386</u>	<u>4,643,115</u>	<u>4,512,530</u>
Out City:					
Residential	\$ 2,473,015	\$ 2,641,940	\$ 3,057,363	\$ 2,780,762	\$ 3,166,987
Multifamily	490,457	534,662	566,432	536,870	576,265
Commercial/Industrial	1,046,465	934,744	933,956	884,258	941,205
Fire Protection	142,350	122,568	101,001	111,297	121,082
Seasonal Uses	256,741	276,100	425,357	344,883	358,216
Total Out City	<u>4,409,028</u>	<u>4,510,014</u>	<u>5,084,109</u>	<u>4,658,070</u>	<u>5,163,755</u>
Total System:					
Residential	\$ 4,450,449	\$ 4,655,223	\$ 5,271,457	\$ 4,833,918	\$ 5,272,111
Multifamily	998,051	1,056,096	1,122,756	1,031,004	1,056,416
Commercial/Industrial	2,790,755	2,696,469	2,805,557	2,569,609	2,526,603
Fire Protection	320,915	247,100	233,631	235,392	235,716
Seasonal Uses	460,206	526,246	779,094	631,262	585,439
Total System	<u>\$ 9,020,376</u>	<u>\$ 9,181,134</u>	<u>\$ 10,212,495</u>	<u>\$ 9,301,185</u>	<u>\$ 9,676,285</u>

CITY OF KALAMAZOO, MICHIGAN**WATER SUPPLY SYSTEM****TEN LARGEST WATER CUSTOMERS
BY VOLUME AND REVENUE****YEAR ENDED DECEMBER 31, 2004**

<u>Customer</u>	<u>Principal Product or Service</u>	<u>Water Volume (cubic meters)</u>	<u>Percent of Total (1)</u>	<u>Water Revenue</u>	<u>Percent of Total (2)</u>
Western Michigan University	Higher Education	1,004,039	4.4%	\$ 277,488	2.9%
Graphic Packaging	Paper Products	1,001,083	4.4%	214,576	2.2%
Pfizer Corporation	Pharmaceuticals	479,884	2.1%	129,889	1.3%
Borgess Medical Center	Hospital	526,534	2.3%	119,969	1.2%
Kalsec	Food Grade Flavoring	180,467	0.8%	65,737	0.7%
Occidental Development	Real Estate Development	121,707	0.5%	64,173	0.7%
Chateau Estates	Mobile Home Park	177,780	0.8%	63,239	0.7%
Bronson Methodist Hospital	Hospital	195,219	0.9%	51,787	0.5%
Pavilion Estates	Mobile Home Park	109,870	0.5%	49,225	0.5%
Concord Place Apartments	Apartment Complex	115,470	0.5%	41,096	0.4%
		<u>3,912,053</u>	<u>17.2%</u>	<u>\$ 1,077,179</u>	<u>11.1%</u>

(1) Based on water volume of 22,715,384 cubic meters.

(2) Based on Water System billed revenue of \$9,676,285.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER SERVICE AGREEMENTS

<u>Municipality</u>	<u>Date of Execution</u>	<u>Year to be Renewed</u>
City of Galesburg (2)	29-Jul-85	2025
City of Parchment (2)	23-Jul-85	2015
City of Portage (2)	27-Jan-86	2016
Village of Augusta (2)	26-Mar-81	2021
Village of Mattawan (2)	18-Nov-96	2026
Village of Vicksburg (2)	16-Apr-85	2015
Charleston Township (1)	3-Jul-98	2016
Comstock Township (1)	16-Sep-80	2010
Cooper Township (1)	10-Oct-83	2013
Kalamazoo Township (1)	6-Oct-80	2010
Oshtemo Township (1)	8-Oct-84	2014
Pavilion Township (1)	16-Mar-81	2011
Schoolcraft Township (1)	25-Oct-82	2012
Texas Township (1)	22-Oct-84	2014
Gull Lake Sewer Authority (2)	15-Sep-80	2010
Barry County		
Prairieville Township		
Richland Township		
Ross Township		

(1) Served by a retail service agreement.

(2) Served by a wholesale service agreement.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

APPROXIMATE NUMBER OF WASTEWATER CUSTOMERS
BY LOCATION AND USER CLASSIFICATION

LAST FIVE FISCAL YEARS

Customer Location and Classification	2000	2001	2002	2003	2004
<u>Retail Customers</u>					
<i>In-City Retail Customers</i>					
Residential	16,706	16,677	16,678	16,719	16,724
Commercial	2,905	2,795	2,819	2,839	2,815
Industrial	175	172	182	155	153
Sub-Total	<u>19,786</u>	<u>19,644</u>	<u>19,679</u>	<u>19,713</u>	<u>19,692</u>
<i>Out-City Retail Customers</i>					
Residential	7,137	7,447	7,734	7,946	8,259
Commercial	1,103	1,165	1,226	1,251	1,265
Industrial	56	58	70	49	49
Sub-Total	<u>8,296</u>	<u>8,670</u>	<u>9,030</u>	<u>9,246</u>	<u>9,573</u>
Total Retail Customers	<u>28,082</u>	<u>28,314</u>	<u>28,709</u>	<u>28,959</u>	<u>29,265</u>
<u>Wholesale Customers</u>					
Industries	3	2	2	2	2
Wholesale Municipal Customers	7	8	8	8	8
Dewatering Accounts	11	9	12	10	7
Septage Haulers	13	12	20	9	20
Sub-Total	<u>34</u>	<u>31</u>	<u>42</u>	<u>29</u>	<u>37</u>
<u>Flat Rate Customers</u>	<u>1,127</u>	<u>1,180</u>	<u>1,325</u>	<u>1,380</u>	<u>1,412</u>
Total Sewer Customers	<u>29,243</u>	<u>29,525</u>	<u>30,076</u>	<u>30,368</u>	<u>30,714</u>

CITY OF KALAMAZOO, MICHIGAN**WASTEWATER SYSTEM****NUMBER OF RETAIL CUSTOMERS BY METER SIZE****LAST FIVE FISCAL YEARS**

<u>Meter Size</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
5/8" - 3/4"	22,346	22,447	22,583	22,644	22,561
1"	3,537	3,726	3,918	4,106	4,449
1-1/2"	356	356	368	384	385
2"	1,423	1,387	1,426	1,427	1,466
3"	271	259	264	256	260
4"	136	128	138	130	132
6"	13	11	12	12	12
	<u>28,082</u>	<u>28,314</u>	<u>28,709</u>	<u>28,959</u>	<u>29,265</u>

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER READY TO SERVE CHARGES
BY WATER METER LOCATION AND SIZE

LAST FIVE FISCAL YEARS

<u>Meter Location and Size</u>	<u>1999 - 2001 (1)</u>		<u>2001- 2003 (2)</u>		<u>2003- 2004 (3)</u>	
	<u>Monthly</u>	<u>Quarterly</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Monthly</u>	<u>Quarterly</u>
City:						
5/8"	\$ 6	\$ 8	\$ 7	\$ 8	\$ 7	\$ 8
3/4"	6	9	7	8	7	8
1"	7	9	7	9	7	9
1-1/2"	7	11	7	9	7	9
2"	8	14	8	11	8	11
3"	16	36	13	27	13	25
4"	19	45	15	32	14	30
6"	25	64	19	46	18	42
Out City:						
5/8"	\$ 7	\$ 10	\$ 7	\$ 10	\$ 8	\$ 11
3/4"	7	11	7	11	8	12
1"	7	12	8	12	8	14
1-1/2"	8	15	8	14	9	16
2"	10	21	10	20	11	22
3"	25	65	24	60	27	68
4"	30	82	29	75	32	85
6"	43	120	40	111	46	125

(1) Rate change effective September 27, 1999.

(2) Rate change effective July 1, 2001.

(3) Rate change effective April 30, 2004.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER TREATMENT CHARGES

BY CUSTOMER CLASSIFICATION (1)

LAST FIVE FISCAL YEARS

<u>Fiscal Years Ended December 31</u>	<u>In-City Retail Customers</u>	<u>Out-City Retail Customers</u>	<u>Wholesale Municipal Customers</u>	<u>City of Galesburg (2)</u>	<u>Septage Haulers</u>	<u>In-City Dewatering Customers</u>	<u>Out-City Dewatering Customers</u>
1999-2000 (3)	0.299	0.446	0.244	0.268	13.919	0.268	0.459
2000-2003 (4)	0.282	0.488	0.259	0.291	17.802	0.258	0.501
2003-2004 (5)	0.288	0.561	0.312	0.351	27.978	0.261	0.574

(1) Per cubic meter

(2) Since the City of Galesburg does not have a master meter, the wastewater treatment charge is adjusted for the cost of infiltration and inflow, which is water other than wastewater entering the System.

(3) Rate change effective September 27, 1999.

(4) Rate change effective July 1, 2001.

(5) Rate change effective April 30, 2004.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER TREATMENT VOLUME
AS BILLED BY USER CLASSIFICATION (1)

LAST FIVE FISCAL YEARS

	2000	2001	2002	2003	2004
Retail Customers					
Residential	6,356,128	6,484,713	6,566,366	6,353,479	6,075,815
Commercial	9,250,704	8,709,156	9,081,189	8,112,063	8,158,941
Industrial	2,062,477	1,976,668	1,815,409	1,898,414	1,734,399
Sub-Total	17,669,309	17,170,537	17,462,964	16,363,956	15,969,155
Wholesale Customers					
Industries	13,992,015	7,456,515	7,223,118	6,937,039	6,238,942
Wholesale Municipal	7,839,614	7,850,744	7,594,052	7,984,969	8,126,901
Dewatering Accounts	315,111	277,488	641,582	187,542	124,769
Septage Haulers	24,032	25,876	25,569	23,847	12,559
Sub-Total	22,170,772	15,610,623	15,484,321	15,133,397	14,503,171
Total Wastewater Billed	39,840,081	32,781,160	32,947,285	31,497,353	30,472,326

(1) Measured in Cubic Meters.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER VOLUME AS TREATED AND BILLED (1)

LAST FIVE FISCAL YEARS

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Metered Wastewater Volume	43,516,147	39,373,581	38,959,122	36,869,796	36,075,759
Water Consumption as Billed	<u>39,840,081</u>	<u>32,781,160</u>	<u>32,947,285</u>	<u>31,497,353</u>	<u>30,472,326</u>
Difference (2)	<u>3,676,066</u>	<u>6,592,421</u>	<u>6,011,837</u>	<u>5,372,443</u>	<u>5,603,433</u>
Difference as a % of Metered Wastewater Volume	8.4%	16.7%	15.4%	14.6%	15.5%

(1) Measured in Cubic Meters.

(2) The difference between the wastewater volume as treated and billed is due, in part, to slow meters and infiltration and inflow which is water other than wastewater that enters the System.

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

AVERAGE AND PEAK DAILY
WASTEWATER TREATMENT VOLUME (1)

LAST FIVE FISCAL YEARS

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Average Daily Sewage Disposal Volume	31.5	28.5	28.2	26.7	26.0
Peak Daily Sewage Disposal Volume	36.5	43.4	36.6	32.7	33.6
Peak as a Percent of Average	115.87%	152.28%	129.79%	122.47%	129.23%

(1) Measured in millions of gallons per day.

CITY OF KALAMAZOO, MICHIGAN
WASTEWATER SYSTEM
TEN LARGEST CUSTOMERS
BY WASTEWATER SYSTEM REVENUE AND VOLUME AS BILLED
YEAR ENDED DECEMBER 31, 2004

Customer	Principal Product or Service	Wastewater Volume (cubic meters)	Percent of Total (1)	Wastewater Treatment Revenue	Wastewater Surcharge Revenue	Wastewater System Revenue	Percent of Total (2)
Pfizer	Pharmaceuticals	4,510,632	14.8%	\$ 647,183	\$ 4,006,559	\$ 4,653,742	27.1%
City of Portage	Municipality	6,041,753	19.8%	1,747,281	-	1,747,281	10.2%
Graphic Packaging	Paper Products	1,942,440	6.4%	141,097	1,140,022	1,281,119	7.5%
Kalsec	Food Grade Flavorings	162,582	0.5%	60,604	504,821	565,425	3.3%
Cytec	Chemicals	238,882	0.8%	28,325	282,249	310,574	1.8%
Western Michigan University	Higher Education	815,855	2.7%	234,966	-	234,966	1.4%
Gull Lake Sewer Authority District	Municipality	765,201	2.5%	223,877	-	223,877	1.3%
Hazelton	Research	43,698	0.1%	16,263	94,835	111,098	0.6%
Menasha	Paper Products	2,679	0.0%	807	92,616	93,423	0.5%
Parchment	Municipality	310,641	1.0%	89,995	-	89,995	0.5%
		<u>14,834,363</u>	<u>48.7%</u>	<u>\$ 3,190,397</u>	<u>\$ 6,121,101</u>	<u>\$ 9,311,498</u>	<u>54.2%</u>

(1) Based on wastewater treatment volume of 30,472,326 cubic meters.

(2) Based on Wastewater System billed revenue of \$17,172,634

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

WASTEWATER REVENUE AS BILLED

BY METER LOCATION AND CLASSIFICATION

LAST FIVE FISCAL YEARS

<u>Meter Location and Classification</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City:					
Residential	\$ 1,808,917	\$ 1,777,401	\$ 1,747,103	\$ 1,659,454	\$ 1,674,809
Commercial	2,154,276	1,991,531	2,030,099	1,758,104	1,836,798
Industrial	265,941	226,208	218,098	186,282	163,914
Industrial Monitored	369,144	367,522	362,670	633,268	820,588
Contract	883,318	994,324	834,965	915,469	919,462
Municipalities	-	-	-	-	-
Septage Haulers	-	-	-	-	-
Dewatering	47,829	39,032	132,618	21,725	12,224
Total City	<u>5,529,425</u>	<u>5,396,018</u>	<u>5,325,553</u>	<u>5,174,302</u>	<u>5,427,795</u>
Out City:					
Residential	\$ 1,507,020	\$ 1,442,522	\$ 1,696,410	\$ 1,708,603	\$ 1,887,708
Commercial	1,143,584	1,335,082	1,425,529	1,317,917	1,488,569
Industrial	159,483	107,708	109,991	123,721	105,912
Industrial Monitored	609,133	714,823	621,299	742,607	902,925
Contract	7,272,522	6,636,049	6,371,252	6,401,938	4,653,742
Municipalities	1,917,063	1,930,012	1,973,103	2,076,481	2,365,379
Septage Haulers	362,102	488,195	479,060	507,895	305,516
Dewatering	45,792	66,903	56,012	42,791	35,088
Total Out City	<u>13,016,698</u>	<u>12,721,293</u>	<u>12,732,654</u>	<u>12,921,953</u>	<u>11,744,839</u>
Total System:					
Residential	\$ 3,315,936	\$ 3,219,923	\$ 3,443,513	\$ 3,368,057	\$ 3,562,517
Commercial	3,297,860	3,326,613	3,455,628	3,076,021	3,325,367
Industrial	425,424	333,916	328,089	310,003	269,826
Industrial Monitored	978,277	1,082,345	983,969	1,375,875	1,723,513
Contract	8,155,840	7,630,373	7,206,216	7,317,407	5,573,204
Municipalities	1,917,063	1,930,012	1,973,103	2,076,481	2,365,379
Septage Haulers	362,102	488,195	479,060	507,895	305,516
Dewatering	93,621	105,935	188,629	64,516	47,312
Total System	<u>\$ 18,546,123</u>	<u>\$ 18,117,311</u>	<u>\$ 18,058,207</u>	<u>\$ 18,096,255</u>	<u>\$ 17,172,634</u>

CITY OF KALAMAZOO, MICHIGAN

WASTEWATER SYSTEM

HISTORY OF SYSTEM RATE INCREASES

<u>Date Increase Effective</u>	<u>Percent Increase</u>
January 1, 1984	-7.50%
February 8, 1995	0.00%
March 2, 1987	0.00%
January 1, 1991	0.00%
January 1, 1993	0.00%
January 1, 1995	0.00%
March 3, 1997	0.00%
February 1, 1998	0.00%
March 15, 1999	0.00%
July 1, 2001	4.00%
February 1, 2002	0.00%
April 30, 2004	6.75%

* In 1999 there was a revenue neutral rate change. That is, rates for some classifications increased while rates for other classifications decreased. Overall, there was no increase in revenue.

**CITY OF KALAMAZOO,
MICHIGAN**

SINGLE AUDIT

For the Year Ended December 31, 2004



REHMANN ROBSON

Certified Public Accountants

CITY OF KALAMAZOO, MICHIGAN
Single Audit

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CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development				
Direct programs:				
Community Development Block Grant:	14.218			
Program year 1995/96		B-95-MC-26-0022	\$ 2,348,000	\$ 203
Program year 1997/98		B-97-MC-26-0022	2,246,000	5
Program year 1998/99		B-98-MC-26-0022	2,300,016	53,000
Program year 1999/00		B-99-MC-26-0022	2,290,000	8,974
Program year 2001/02		B-01-MC-26-0022	2,410,000	9,972
Program year 2002/03		B-02-MC-26-0022	2,396,000	332,440
Program year 2003/04		B-03-MC-26-0022	2,168,000	1,193,821
Program year 2004/05		B-04-MC-26-0022	2,166,000	1,196,964
Total Community Development Block Grant				<u>2,795,379</u>
Emergency Shelter:	14.231			
Program year 2003/04		S-03-MC-26-0022	86,000	33,065
Home Investment Partnerships Program:	14.239			
Program year 2003/2004		M-03-MC-26-0207	3,954,217	<u>1,648,468</u>
Total U.S. Department of Housing and Urban Development				<u>4,476,912</u>
U.S. Department of Justice				
Direct programs:				
Local Law Enforcement Block Grant:	16.592			
Program year 2002/03		02-LB-BX-1737	175,355	106,033
Program year 2003/04		03-LB-BX-0991	137,404	87,169
Program year 2004/05		04-LB-BX-0350	64,918	419
Total Local Law Enforcement Block Grant				<u>193,621</u>
Weed and Seed Grant:	16.595			
Program year 2002/03		2002-WS-QX-0705	499,998	216,941
Program year 2004/05		2004-WS-Q4-0145	224,997	24,450
Total Weed and Seed Grant				<u>241,391</u>
Bulletproof Vest Program:	16.607			
Program year 2002		-n/a-	25,574	3,941
Program year 2003		-n/a-	6,393	6,393
Program year 2004		-n/a-	8,682	8,682
Total Bulletproof Vest Program				<u>19,016</u>
Project Safe Neighborhood	16.609			
Program year 2003/04		2003-GP-CX-0561-4-24003	125,000	<u>58,523</u>
COPS In School Grant:				
Program year 2003/04	16.710	2002SHWX0469	375,000	<u>125,001</u>
Agency - Juvenile Justice Grant:	16.540			
Program year 2003/04		DP 04-39001	75,000	70,996
Program year 2004/05		JP 05-39001	37,500	2,390
Total Juvenile Justice Grant				<u>73,386</u>
Total U.S. Department of Justice				<u>710,938</u>

(Continued)

CITY OF KALAMAZOO, MICHIGAN
Schedule of Expenditures of Federal Awards (Concluded)
For the Year Ended December 31, 2004

Federal/Pass-through Grantor Program Title	CFDA Number	Federal/ Pass-through Grantor Number	Award Amount	Federal Expenditures
U.S. Department of Transportation				
Direct programs:				
Federal Transit Administration -				
Capital, Planning, and Operating Assistance:	20.507			
Capital 1999		MI-90-X317	\$ 1,604,901	\$ 34,656
Capital 2000		MI-90-X333	1,372,293	40,009
Capital 2001		MI-90-X360	695,200	756
Capital 2002		MI-90-X382	1,117,801	35,232
Capital 2003		MI-90-X404	858,655	100,266
Capital 2003		MI-03-X155	992,500	233,800
Capital 2004		MI-03-X206	3,775,993	3,009
Capital 2004		MI-90-X431	503,325	202,702
Operating			703,421	703,421
Total FTA Capital, Planning, and Operating Assistance				<u>1,353,851</u>
Environmental Protection Agency				
Direct program:				
National Brownfield Pilot - Redevelopment	66.807			
Initiative - Assistance Amendment		V985392-01-1	100,000	<u>21,190</u>
Passed-through the Michigan Department of Environmental Quality:				
Wellhead Protection Grant:	66.468			
Program year 2003/04		-n/a-	70,000	39,957
Program year 2004/05		-n/a-	70,000	<u>2,444</u>
Total Wellhead Protection Grant				<u>42,401</u>
Total Environmental Protection Agency				<u>63,591</u>
Federal Emergency Management Agency				
Direct program:				
Assistance to Firefighters	83.554	EMW-2003-FP-00710	124,600	<u>44,348</u>
Total Expenditures of Federal Awards				<u>\$ 6,649,640</u>

CITY OF KALAMAZOO, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Kalamazoo, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Kalamazoo reporting entity is defined in Note I of the City's basic financial statements.

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City of Kalamazoo reporting entity. Of the federal expenditures presented in the schedule, the City of Kalamazoo provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development		
Block Grant	14.218	\$ 1,542,200
Emergency Shelter	14.231	33,065
Home Investment Partnership		
Program	14.239	1,649,468
Local Law Enforcement		
Block Grant	16.592	193,620
Weed and Seed Grant	16.595	119,592
Juvenile Justice Grant	16.540	<u>46,380</u>
Total		<u>\$ 3,584,325</u>

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

May 5, 2005

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2004, and have issued our report thereon dated May 5, 2005. We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represent 23% and 7% of the assets and 32% and 7% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Kalamazoo Golf Association were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Kalamazoo, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our report and the reports of other auditors noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Kalamazoo, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' and 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

May 5, 2005

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

Compliance

We have audited the compliance of the ***City of Kalamazoo, Michigan*** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The ***City of Kalamazoo, Michigan's*** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ***City of Kalamazoo, Michigan's*** management. Our responsibility is to express an opinion on the ***City of Kalamazoo, Michigan's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***City of Kalamazoo, Michigan's*** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ***City of Kalamazoo, Michigan's*** compliance with those requirements.

In our opinion, the ***City of Kalamazoo, Michigan*** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the *City of Kalamazoo, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Kalamazoo, Michigan's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Kalamazoo, Michigan*, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 5, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kalamazoo's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the financial statements of the Downtown Development Authority and the Kalamazoo Municipal Golf Association, which represents 23% and 7% of the assets and 32% and 7% of the revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for the Downtown Development Authority and the Kalamazoo Municipal Golf Association, is based solely on the reports of the other auditors.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CITY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended December 31, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.239

HOME Investment Partnership Program

16.595

Community Capacity Development Office
(Operation Weed & Seed)

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



May 5, 2005

Honorable Mayor and Members
of the City Commission
City of Kalamazoo, Michigan

We have audited the financial statements of the City of Kalamazoo for the year ended December 31, 2004, and have issued our report thereon dated May 5, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated January 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the City of Kalamazoo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Kalamazoo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Kalamazoo's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Kalamazoo's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Kalamazoo's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Kalamazoo are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Kalamazoo during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus, except as follows:

- As described in Note IV.G. to the financial statements, the City restated the beginning fund balance of its general fund (and, correspondingly, the net assets of its governmental activities) in connection with a correction to its beginning cash balances. The effect of this restatement was a reduction of beginning equity of \$91,004.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the liability for uninsured risks of loss, including incurred but not reported claims, which are accounted for in the City's Insurance and Benefits Internal Service Fund. We relied upon the work of the City's third-party administrators for the estimated liability on reported claims and calculated the estimated liability for incurred but not reported claims based on GASB Statement 10 (as amended by GASB Statement 30 and Interpretation 4).
- Management's estimate of the useful lives of depreciable capital assets in the government-wide financial statements and proprietary funds is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the various allowances made for uncollectable accounts receivable is based on past collection history. We evaluated the key factors and assumptions used to develop the allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed various adjustments relative to the proper accounting for certain transactions, all of which were posted by the City, and their effect is included in the City's financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Kalamazoo's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

City of Kalamazoo
Comments and Recommendations
For the Year Ended December 31, 2004

During our audit we became aware of certain issues regarding internal control, financial reporting, and operating efficiency. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated May 5, 2005 on the financial statements of the City of Kalamazoo.

Cash reconciliation process

The City utilizes a relatively large and complex process for managing and reconciling its many bank accounts, including the use of a central clearing account. Our testing of the reconciliations for 2004 identified several material discrepancies that could not be adequately traced to their source, despite a significant investment of time on the part of management. Ultimately, it was agreed that approximately \$90,000 worth of untraced variances must relate to issues existing prior to January 1, 2004, though no further details could be readily determined. In addition, numerous other adjustments were identified as relating to 2004 and were corrected and reflected in the City's audited financial statements.

These errors appear to have been the result of a weakness in the internal control over cash management. The cash accounts in question have not historically been subject to appropriate supervisory review, and were allowed to go unreconciled for many months. When the accounts were reconciled in preparation for the year-end audit, the accounting personnel involved were permitted to post significant adjustments to cash to ostensibly correct the errors, but without adequate support or approval. Ultimately, these adjustments had to be reversed, and the City posted a restatement of the beginning fund balance of the general fund in the amount of \$91,004.

We recommend that the City carefully evaluate its internal controls over cash management, especially in the reconciliation of cash accounts, to ensure that an adequate segregation of duties exists, and that all accounts are thoroughly reviewed in a timely manner. We have discussed with management certain options for further streamlining the City's accounting practices for cash accounts, which may assist in this process.

Utility billing system

The City's current utility billing system currently suffers from a number of limitations, including the inability to run subsidiary ledgers at a specified point-in-time and the inability to fully write-off old or uncollectable accounts. This requires the City to prepare very complex spreadsheet analyses to attempt to reconcile the amounts reported in the general ledger to the amounts in the utility billing system. Not only does this add to the administrative effort necessary to account for these operations, but it represents a potential fraud risk and poses various audit difficulties.

We understand that the City is currently in the process of evaluating financial software packages. We strongly encourage management to make streamlining the utility billing system and improving the integration and reconciliation with the general ledger key factors in its evaluation of potential solutions.

Miscellaneous account reconciliations

As is common with many governments of its size, the City has literally thousands of accounts to monitor in its general ledger, many of which (such as receivables and payables) contain balances that carry over from year to year. Typically, the procedures performed in connection with an independent external audit do not focus much on accounts with smaller balances, but rather concentrate on larger accounts with more significant activity. However, as part of our audit for 2004, we did select various samples of smaller accounts. These accounts, while individually insignificant, collectively have the potential to have a substantial impact on the City's financial statements.

City of Kalamazoo
Comments and Recommendations
For the Year Ended December 31, 2004

In our review of a sample of these accounts, we identified numerous examples of small accounting errors, or unreconciled balance sheet accounts. While the specific errors we identified do not represent a material misstatement of the City's financial statements, we would nevertheless encourage management to make a comprehensive review of its balance sheet accounts throughout the City to ensure that all accounts are being properly reviewed and periodically reconciled.

Payroll documentation

During our testing for the City's single audit, we reviewed the payroll records of various programs receiving federal funding. Due to the cyclical nature of single audit testing, our selections for 2004 included certain departments that had not been previously subjected to this type of compliance review. During our testing of the Public Safety Department, we noted that adequate documentation was not being provided to the Finance Department to support charges to federally-funded programs in accordance with applicable laws and regulations. The Department was ultimately able to demonstrate that the necessary records were, in fact, being maintained—though internally, and not forwarded to Finance.

Accordingly, this condition did not result in a finding under the City's single audit. However, given the significant number of federal programs administered by the City's various departments, we recommend that management make a concerted effort to inform all grant managers of the federal compliance requirements for the documentation of payroll expenditures, and ensure that these records are being properly prepared, reviewed, and retained for future inspection.

New accounting pronouncements

Beginning with the fiscal year ended December 31, 2005, the City will be required to comply with the requirements of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This will significantly increase the level of disclosure required for the City's deposits and investments. We will provide management with templates to assist in the aggregation of the data required for this new standard, and would encourage the City to begin working to gather that data in advance of year end.

Beginning with the fiscal years ended December 31, 2006 and 2007, the City will be required to comply with the requirements of GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These new standards will require the City to recognize the cost of postemployment healthcare and other benefits following actuarial methods similar to its pension accounts. The new standards are expected to have a significant impact on the financial position of governments that do not elect to advance fund for these benefits. We recommend that the City carefully review the provisions of these new standards and consider how best to approach the financing of this considerable expense.

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